

**INTERNAL ASSESSMENT  
AND EVALUATION:**

**USAID COUNTRY STRATEGIC PLAN  
FOR MONGOLIA, FY 1998 – FY 2003**

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## LIST OF ACRONYMS

AED	Academy for Educational Development
ANE	Asia/Near East Bureau
CG	Consultative Group
DAI	Development Alternatives, Inc.
EPSP	Economic Policy Support Program
ERA	Energy Regulatory Authority
GOM	Government of Mongolia
GTN	Global Technology Network
IDLI	International Development Law Institute
IR	Intermediate Result
IRI	International Republican Institute
IT	Information Technology
MCA	Millennium Challenge Account
MOU	Memorandum of Understanding
MPP	Mission Performance Plan
MPRP	Mongolian People's Revolutionary Party
MVC	Most Valued Company
NCSC	National Center for State Courts
NGO	Non-Governmental Organization
OE	Operating Expenses
PSC	Personal Services Contractor
SO	Strategic Objective
TDB	Trade and Development Bank
UNDP	United National Development Program
USAID	Agency for International Development
USDH	US Director Hire Employee
WSP	Women for Social Progress

## **I. Background**

The current USAID strategy for Mongolia was submitted to Washington in October 1998 and covers the period FY 1999 through FY 2003. It marked an important shift in the USG assistance program in Mongolia *away* from short-term humanitarian assistance and *toward* more long-term development concerns. It also formally articulated a two-part strategy based on two main strategic objectives (SOs). One SO (*“Accelerate and Broaden Private Sector Growth”*) focused on economic expansion. The other SO (*“Consolidate Mongolia’s Transition to Democracy”*) emphasized the importance of strengthening Mongolia’s fragile new political structures.

The period covered by the strategy has now entered its final year. With less than twelve months left to run, it is appropriate to review progress made under the strategy thus far. The intent is to ensure a better understanding of both notable achievements and unrealized expectations related to the implementation of the USAID program in Mongolia during a critical period in the country’s history.

A better understanding of the positive and negative aspects of program design and implementation during the period 1998 through 2003 is also of critical importance in designing an effective post 2003 program. Already, initial drafts of this assessment have been useful in informing that process both in Washington and the field. An initial draft of this document was first distributed in Washington in May 2002 during the formal presentation of the Mission’s Annual Report. As a result of those discussions, a four-person Washington strategy team visiting both the Asia/Near East Bureau (ANE) and the Global Bureau visited Mongolia in October 2002.

As a result of these and other discussions, consensus has emerged that the two key areas of USAID involvement that have marked the program for the last five years—support for private sector led economic growth and support for a stronger civil society—should continue into the next strategy period. From a Mission standpoint, that approach would best involve a maintenance of the current strategic objective (SO) structure, while modifying certain existing intermediate results (IRs) to ensure that they are more sharply focused on the central issues and concerns that face a rapidly changing Mongolia. Certainly, one of the main intents of this assessment is to ensure that USAID remains vitally engaged in the issues that are most critical to Mongolia’s future.

The purpose of this paper is thus twofold. *First*, it aims to assess the impact achieved under the current USAID/Mongolia strategy as that strategy period concludes. *Second*, based on that analysis, it makes explicit recommendations on the key strategic choices facing USAID/Mongolia for the post FY 2003 period. When read in conjunction with other documents—including recent USAID/Mongolia Annual Reports; the country team’s Mission Performance Plan (MPP); and the set of five special analyses prepared as part of the strategy development process—it should allow USAID/Mongolia and the Asia/Near East (ANE) Bureau to finalize development of a strategic framework that would cover USAID activity in Mongolia during the period FY 2004 and beyond.

## II. Mongolian Development Environment, c. 1998

The overview section of the October 1998 strategy did not expect miracles overnight. It acknowledged significant change since 1991, especially in Mongolia's political transformation. At the same time, it highlighted serious economic concerns related to poor infrastructure, limited foreign investment, declining social services, and worsening poverty. Within five years (e.g., by 2003), it anticipated that "*all important features of a fully-functioning and democratic market economy*" would be firmly in place. Within ten years (e.g., by 2008), it suggested that Mongolia could "*sustain high levels of broad economic growth and thereby demonstrate the fruits of a free-market democracy to its citizens.*"

1. *Economic Landscape*: The collapse of the Soviet Union in 1991 and the termination of all Soviet assistance shortly thereafter made "shock therapy" almost inevitable. By the middle 1990s, Mongolia appeared to have survived the most difficult elements of the transition to a market economy. After years of decline, official GDP increased by 6.3 percent in 1995 as a result of booming copper prices, followed by increases of 2.6 percent in 1996 and 3.3 percent in 1997. Improved economic management at the macro level seemed to be having positive impact, especially in terms of exchange rate stabilization and decreases in inflation.

2. *Social/Political Trends*: The October 1998 strategy noted Mongolia's remarkable and largely successful transition toward a parliamentary democracy. It highlighted the emergence of the then-ruling Democratic coalition as well as the trend toward a decentralization of state power to the *aimag* level. At the same time, it suggested that economic stagnation combined with declining social indicators posed a threat to the process of democratic reform.

3. *Development Constraints and Opportunities*: The situation described in this section of the October 1998 strategy remains largely unchanged. In fact, many parts of the narrative read as if they were written only yesterday. For example, the strategy notes the adverse consequences of a "low growth scenario" of around 2.5 percent annually. In reality, annual GDP growth rates over the last four years have stagnated at around 1-2 percent, though recent official estimates suggest that annual economic growth during 2002 could finally exceed 3 percent. Similarly, the strategy mentions the adverse impact of the Asian and Russian financial crises in terms of lower commodity prices, reduced investment, and slower growth. If written today, the negative impact of a post September 11 economic downturn would instead be highlighted, though the consequences stemming from it would remain broadly similar.

The fragility of the transition process, highlighted in October 1998, continues to be a matter of important concern. Other issues that remain relevant include the importance of privatization, the need for more foreign investment and the challenge posed by increased poverty in rural Mongolia. The list of five major development constraints provided in the document also remains depressingly familiar: (1) foundations for democracy not firmly in place; (2) economy inefficient with low investment levels; (3) economy vulnerable to

economic shocks; (4) poor communications and transport networks; and (5) environmental degradation.

*4. Relationship of Strategy to US Foreign Policy:* By contrast, it is not at all surprising that the assessment of links between the USAID strategy and USG foreign policy objectives in Mongolia remains broadly similar. The USAID program was and remains a key element in the broader US effort to “support Mongolia’s transformation into a democratic, prosperous and stable country.” If anything, recent events have brought Mongolia’s contribution to regional stability into even sharper focus. The country’s commitment to democracy still serves as a notable and possibly unique example to other countries in Central Asia and beyond. Its strategic location between two traditional rivals, nuclear powers and important players on the world stage--Russia and China--will almost certainly add to its importance in the years to come. Its proximity to the two Koreas and the cordial relations it enjoys with both countries could make a useful contribution in the coming years, especially if North Korea finally breaks through its decades of isolation and finally rejoins the international community. In addition, Mongolia provides strong support for U.S. positions on many international issues, including those related to the ongoing war on terrorism.

*5. Relationship to Host Country Priorities:* Here again, elements of the October 1998 strategy remain very relevant. This is perhaps something of a surprise, given that the Democratic Coalition was soundly defeated by the former Communist Mongolian People’s Revolutionary Party (MPRP) in three successive elections--parliamentary elections in June 2000, local elections in October 2000 and presidential elections in May 2001. Yet the new government co-opted significant elements of the former government economic platform and gladly welcomed USAID assistance as part of its own effort to further promote the economic and political transition in Mongolia. The program is also broadly supportive of a number of sector strategies developed in Mongolia in recent years, including those related to energy, privatization, rural development and legal reform.

*6. Role of Other Donors:* The October 1998 strategy properly emphasized the importance of donor coordination, noting potential problems associated with duplication, missed opportunities and even competition. Here again, the situation today largely coincides with that described nearly four years ago. Annual Consultative Group (CG) meetings continue to be held; some sector-level discussions in energy and other areas have gone forward; and the government has affirmed its commitment to advance donor coordination still further. Yet, despite—or, perhaps, because of—continued large donor funding, coordination in Mongolia at times remains disappointing. And, though not mentioned in the October 1998 strategy, the significant loan element of much of this foreign assistance is emerging as a serious and growing concern, one that has important implications for Mongolia’s development landscape in FY 2004 and beyond.

*7. Concluding Note:* In sum, the discussion of the Mongolian development environment provided in the October 1998 strategy continues to resonate today. In retrospect, an unwarranted degree of optimism surrounded a number of issues that confronted both

Mongolia and the USAID program nearly four years ago. Also, some important new issues have emerged, including concerns about the country's growing debt burden; economic decline in rural Mongolia, accompanied by some movement of people to the *ger* districts located on the fringes of urban Mongolia; and the ongoing threat of continued economic stagnation.

Yet much of the analysis remains very relevant. Mongolia's development landscape is recognizably similar to the one that dominated Mission planning during the fall of 1998. Most of the opportunities and constraints identified at that time remain broadly similar. Indeed, in some cases, they are even more compelling. Even more importantly, several of the key issues identified in the October 1998 USAID/Mongolia strategy remain at least as critical now as they did when the strategy was approved more than three years ago.

### **III. Strategic Overview**

The October 1998 strategy, developed in cooperation with USAID/Washington and various Mongolian counterparts and stakeholders, led to the formulation of a single overarching goal for the period 1999-2003, namely *"to establish a market-oriented and democratic society."* This in turn set in motion a variety of USAID-funded activities centered on two main strategic objectives, one focused on private sector growth and the other on consolidating democracy. The strategy also explicitly recognized the synergies possible between this two-pronged approach, with progress in one area having important and positive implications on the other.

Specifically, the document anticipated that USAID would make important contributions toward the achieving five major results by the end of the five-year strategy period. More than four years later, it is possible to assess actual performance against the plans that USAID set for itself back in the fall of 1998:

*1. "Civil society organizations will be addressing the economic needs of rural Mongolians and rural Mongolia will be better integrated into the national economy"*

Progress is being achieved in some parts of the country. The USAID-funded Gobi Initiative implemented by Mercy Corps International in partnership with PACT and Land O'Lakes commenced in January 1999. It is having positive impact, though more as an engine for economic activity rather than simply a vehicle for advancing civil society concerns. One important benefit is the "demonstration effect," resulting in greater effort on the part of other donors to fund programs outside Ulaanbaatar. Certainly, other donors are far more seized with rural development as a concern for their programs than was the case four years ago. USAID/Mongolia is also looking at ways to deepen and perhaps expand the impact of the Gobi program in FY 2004 and beyond. The gap between urban and rural Mongolia is an important long-term issue, one that will likely dominate discussions within Mongolia over the next several years. In this context, the early experience and "lessons learned" from the major USAID program designed to address economic issues in rural Mongolia is a highly positive development.

2. *“Public trust in parliament and the judiciary will improve due to increased professional and ethical standards”*

Some progress is being achieved. The overwhelming dominance of the MPRP at all levels of Mongolia’s political structure was not foreseen in October 1998. The launch of the USAID-funded judicial reform program in January 2001 through a cooperative agreement with the National Center for State Courts (NCSC) holds out the promise for considerable future impact. National opinion polls indicate that the public has very low regard for the judiciary, suggesting that USAID is heavily engaged on issues that demand serious attention. Also, the launch of a new three-year International Republican Institute (IRI) program in early 2002 aimed at strengthening political parties and parliament should have a positive impact through FY 2003 and beyond.

3. *“Increased savings and investment will occur due to an efficient and transparent privatized banking system, establishment of an independent and transparent capital market authority and pension reform.”*

Considerable progress is being achieved. With regard to financial markets, two major USAID-funded activities have had a highly positive impact. First, the USAID-funded management contract with the Agricultural Bank helped turned around a failing institution that maintains a vital network across virtually every *aimag* and *soum* throughout the country. This intervention represents a “success story” of the highest order. By the first quarter of 2001, the bank had reached a break-even point. By the first quarter of 2002, it was reporting after tax profits of \$200,000 a month. Over the last two years, the Agricultural Bank has extended more than 370,000 loans to herders, pensioners, consumers and small businesses; increased the number of branch offices from 269 to 356; increased the number of employees from 803 to 1,400; reduced non-performing loans to 0.73 percent of the total value of loans outstanding; and dramatically demonstrated that a bank run on commercial lines can deliver profitable credit throughout the country. The “Agricultural Bank story” has attracted considerable interest, including in international publications such as the *Far Eastern Economic Review* and the *Asian Wall Street Journal*. It now stands at the brink of privatization.

Second, Govi Ekhel was established as an innovative rural micro finance institution under the Gobi Initiative in early 1999. It formally merged with a complementary UNDP-supported lending program in early 2002. XasBank, the new entity that emerged, now has thirty branch offices and a client base that is approaching 10,000. It offers a full range of regular banking services, including savings accounts. Other encouraging developments have also occurred, including approval by USAID/Washington in summer 2002 of a \$1.2 million Global award to XasBank to strengthen its management information services. The fact that the XasBank proposal placed first out of nearly fifty proposals received as part of this annual international competition is an important tribute to the bank’s youthful management team. At the same time, XasBank has received encouraging signals about possible private investment through Shore Bank (Chicago) and Triados (Netherlands), among others.



With regard to capital markets and pension reform, USAID has on occasion provided advice and technical support. Most recently, it responded promptly to government requests for policy and legal analysis related to the insurance sector and a possible mortgage market. Taken together, it is fair to say that USAID has had an impact on Mongolia's emerging financial sector that compares favorably with efforts taken by other donors. Mongolia's banking sector in particular has made considerable progress since the current USAID strategy was developed back in fall 1998.

4. *"Three quarters of the economy will be in private hands and the private sector will be considered the true engine for sustained economic growth."*

This objective has largely been achieved. Recent estimates suggest that the share of Mongolia's economy in private hands now exceeds the 75 percent target set for 2003. Since 1998, USAID-funded advisors under a contract with Barents (now BearingPoint) have been instrumental in the sale of 47 government-owned enterprises through a sealed-bid auction process. These auctions raised more than \$15.4 million in revenue for the state.

This early success was followed by a two-year hiatus in terms of the sale of Mongolia's Most Valued Companies (MVCs). USAID was instrumental in developing a strategy for these companies, but the prospective sale of Gobi Cashmere languished with only one prospective company qualifying and that with a bid by an Austrian company that was judged by the government to be "too low." Yet 2002 concluded on a positive note with the sale of Mongolia's largest bank—Trade and Development Bank (TDB)—to a consortium led by an American company with Swiss and Dutch partners for \$12.2 million and the commitment of an additional \$24 million in additional investments over the next two years. As noted above, the Agricultural Bank also now stands on the brink of privatization. The Barents Group is also advising on a number of prospective future privatization, including those related to the national airline (MIAT), oil company (NIC) and insurance company (MobiDatgal).

More broadly, the private sector is certainly *considered* the true engine for sustained economic growth in Mongolia. Yet economic growth rates remain disappointingly low and the private sector, both local and foreign, faces real obstacles as far as efficient investment and profitable business operations in Mongolia are concerned.

5. *"The Mongolian economy will be growing at a five percent rate and growth in most rural Mongolia will be positive."*

Results are disappointing. At this point, prospects for a five percent growth rate in 2002 or even in 2003 seem like a distant dream (recent and probably overly optimistic government officials have indicated that annual growth might have reached or even exceeded three percent in 2002, a marked improvement over both the 2000 and 2001 levels). Drought and harsh winter conditions have had a highly negative impact on the agricultural and herding sector, which accounts for at least one third of GDP. The international global economic picture continues to be disappointing, especially in Asia.

This in turn had an adverse effect on international interest in Mongolia's privatization process. It also reduced growth prospects in some of Mongolia's major foreign exchange-earning sectors, including tourism and mining. The USAID-funded Gobi program is having a positive impact at the micro level in certain parts of rural Mongolia. There is also a sense that Mongolia's vibrant informal sector is not really being captured in official government statistics, thus understating not only private sector participation but also overall economic growth rates for the country. However, the type of sustained economic growth at a national level anticipated in October 1998 so far has not occurred.

#### **IV. Strategic Objective I: Consolidate Mongolia's Transition to Democracy**

The October 1998 strategy recognized Mongolia's progress throughout the 1990s but noted that the country's transition to democracy remained "fragile". A section on "problem identification" described two looming threats. First, economic decline and diminished services in rural areas might result in a disaffected rural population that would in turn undermine the shift toward democracy. Second, the specter of "authoritarian recidivism" could result in a return to Soviet-style central control.

Background sections noted the emergence of a more liberal MPRP while suggesting that significant elements within the party continued to support Soviet-era approaches. The strategy did not foresee that the MPRP would return to government with overwhelming power as a result of local and parliamentary elections in 2000. However, it did note strong MPRP support in rural areas as well as the election of an MPRP president in 1997 as a possible portent of future trends. "*Irrespective of party,*" the strategy suggested in a statement that still rings true, "*a lack of government transparency, arbitrariness in decision-making, and an unwillingness to reach out to the public to explain actions leads to mistrust among citizens for government.*"

Based on a discussion of these two problem areas, the October 1998 strategy set forth two intermediate results aimed at guiding USAID program development and implementation throughout the FY 1998–FY 1993 period.

*1. Establish the Foundation for an Effective Rural Civil Society:* Intermediate Result (IR) 1.1 represents the single most significant shift in the USAID strategy from its formulation in the fall of 1998 to its actual implementation over the last three years. In fact, the Gobi Initiative—USAID's major new program focused on rural Mongolia—was initially conceived as the main vehicle for addressing this concern but was subsequently "transferred" in large part to the Mission's private sector/economic growth strategic objective.

Even when the strategy was written, the language seemed to anticipate a possible change. Certainly, many of the activities summarized under the rural civil society IR—improved information flows, the development of small business, expanded production and marketing, greater female participation, more effective linkages between local governments and the central government—have an economic element and are being implemented under Gobi (see [www.gobi.mn](http://www.gobi.mn) and [www.marketwatch.mn](http://www.marketwatch.mn)). Perhaps most

relevant to a democracy IR, the *Rural Business News* (the largest circulation Mongolian newspaper with a readership measured in the hundreds of thousands) has significant outreach, as do radio programs such as *MarketWatch*, *WeatherWatch* and *Herder from the Future*. In addition, other elements within the USAID portfolio address some of these concerns, at least tangentially. Yet, in reality, this IR has been “overtaken by events”. At this point, it is completely overshadowed by the second “democracy” IR with its emphasis on a more effective parliamentary and a more effective judicial system.

2. *Improve the Effectiveness of Parliament and the Judiciary*: Intermediate Result 1.2 is divided into two sections, one emphasizing parliamentary and political party development and the other focused on judicial reform. Both represent the heart of the Mission’s democratization strategic objective as it is currently being implemented. IRI is taking a lead role in supporting parliament and political party development, while NCSC is charged with effecting far-reaching judicial reform.

The strategic assessment of Mongolian political parties undertaken in fall 1998 remains largely relevant. With regard to the MPRP, the October 1988 strategy emphasized transparency. With regard to the Democratic coalition, it focused on cohesion and organizational skills. Though the relative position of the two political groupings has changed dramatically over the last couple of years, the analysis provided in the USAID strategy remains largely on-target. Similarly, improved drafting skills, better communications with constituents and more attention to public outreach are still important in defining “next steps” as far as parliamentary development in Mongolia is concerned. Some progress has been made in each of these areas but much more work still needs to be done.

Potential future USAID activity in judicial reform was premised on agreement of a broader national strategy on which both Mongolia and the donor community could agree. Considerable effort was put into developing this strategy. Once approved by the Government of Mongolia, USAID launched a significant new judicial reform level under the NCSC in early 2001. Recent surveys suggest that most Mongolians have little confidence in their judiciary, confirming the important and even vital role that the USAID-funded NCSC program can play in this area. Given the size and scope of the NCSC program, the Mission believes that it can and should have substantial impact in 2003 and beyond. Already, assistance in introducing new civil and criminal codes in September 2002 and considerable work in courtroom administration and automation hold out the promise of significant future progress.

3. *Critical Assumptions*: According to the October 1998 strategy, achievement of Mission’s strategic objective in democracy depends on three critical assumptions. The first critical assumption (“*internal economic conditions in Mongolia improve*”) remains problematic. However, the second and third critical assumptions (“*external relations with Mongolia’s neighbors remain friendly*” and “*Mongolians and the donor community come to agreement on the best way to ensure the long-term development of the judiciary and the legal profession*”) have largely been met.

4. *Illustrative Approaches:* As noted above, the Gobi project—a central element of the Mission’s October 1998 plan for addressing civil society concerns in rural areas—was subsequently “transferred” in large part to the private sector strategic objective. In addition, the ACDI/VOCA “SPICE” program highlighted in the strategy was shifted to the same strategic objective and then concluded without an extension in October 2001. In contrast, the IRI program is being continued through FY 2003 and beyond, along the lines of what was described in the October 1998 strategy. Also, the proposed new judicial reform program discussed in the strategy did move forward, with implementation beginning a year later than initially planned following an intensive dialogue with the government aimed at achieving consensus on a broader judicial reform strategy for Mongolia.

5. *Sustainability:* Most of the discussion in the October 1998 strategy refers to the sustainability of the proposed new rural development program that later emerged as the Gobi Initiative. The paper also notes the fragility of Mongolia’s NGO sector in the absence of continued donor support. There is no real discussion on sustainability issues as they relate to the activities of either IRI or NCSC, the two implementing partners that now have responsibility for achieving USAID objectives in the democracy arena.

6. *Measuring Results:* The October 1998 strategy acknowledged that “measurement of democratic change in any society is a complex process”. It then suggested the use of three main indicators to indicate progress, namely (1) establishment of a multi-party system; (2) more favorable rural perceptions about Mongolia’s transition to democracy; and (3) passage of parliamentary laws that directly benefit rural Mongolia.

In retrospect, the third indicator appears difficult to measure and is wholly inadequate to measure progress as far as the USAID program is concerned. More disappointingly, perhaps, the first indicator suggests movement backward rather than forward, given the position of overwhelming dominance that the MPRP now enjoys at all levels of government. Nonetheless, it should be emphasized that Mongolia continues to demonstrate a strong commitment to multi-party democracy. Alternate political movements are given space to develop and grow. In addition, the several local and national elections that have taken place over the last three years demonstrate a degree of vibrancy and competitiveness that is rarely seen elsewhere in the region. National elections scheduled for summer 2004 will provide another useful opportunity to assess the extent to which multi-party democracy has taken hold in Mongolia.

Recent survey data related to indicator two represents perhaps the most encouraging development of all. For example, a November 2001 poll supported by the German Konrad Adenauer Foundation suggests that 87 percent of rural Mongolians consider the transition to democracy in 1990 to have been the “right” step, compared to 91 percent of the respondents in Ulaanbaatar. Similarly, 61 percent of rural Mongolians were either “very” or “fairly” satisfied with the current political system, compared with only 47 percent of those living in Ulaanbaatar. Also, 53 percent of rural Mongolians believed

that voters had a “rather” or “very” strong influence on political decision making (compared to 42 percent in Ulaanbaatar); and 68 percent expressed an intention to vote if elections were held tomorrow, compared to only 58 percent in Ulaanbaatar. More recent opinion surveys have also indicated high levels of continued support for the economic and political transition in both urban and rural Mongolia. More broadly, the strong support displayed by the Mongolian public for economic and political change compares favorably with that recorded in Central Asia as well as in various other parts of the former Soviet Union.

7. *Summary Statement:* The assessment of the Mongolian political situation provided in the October 1998 strategy holds up relatively well over time. The overwhelming success of the MPRP in parliamentary elections in June 2000 could not have been predicted beforehand. Yet concerns expressed over transparency within the MPRP and cohesion within the Democratic coalition were largely on-target at the time and remain relevant today. So too, the October 1998 strategy anticipated the importance of promoting accountability and transparency within parliament, regardless of which political party might be in power.

The strategic emphasis placed on judicial reform appears to be similarly appropriate and on-target. Indeed, its importance is becoming even more apparent as the current strategy runs its course and enters its final phase of implementation. It took a year longer than anticipated to launch the major new judicial reform initiative envisaged in the strategy. However, the strategy document was correct in emphasizing the importance of achieving consensus within the government and among relevant donors *before* moving ahead with the program.

The transfer of the Gobi initiative from a “democracy” project to an “economic” project to some extent skews the strategic construct put forward in the October 1998 strategy. At the same time, it helps highlight the real opportunities for synergy that exist among USAID/Mongolia’s two over-arching strategic objectives, a synergy that was emphasized in the original strategy document and remains just as important today. In fact, the explicit links made by USAID/Mongolia between political and economic change anticipates in some ways the increased connections that are increasingly being made by A.I.D. and in the development literature more generally that progress is one area in many cases hinges on progress in the other.

Finally, perhaps the most encouraging news when reflecting on the hopes expressed in the October 1998 strategy is that Mongolia remains firmly committed to democracy. Economic pressure and difficult conditions in rural Mongolia have not led to a political breakdown. During the last decade, there have been no less than nine elections at the local, parliamentary and presidential level. Governments have been voted out of power – and then returned peacefully to power following new elections. Three of these nine elections have been held since October 1998. None provoked a national crisis, resulted in widespread violence or led to a worrisome degree of instability. Mongolia’s continued commitment to democracy stands in marked contrast to its five Central Asian neighbors, each of which is still governed by the same former Communist ruler who assumed power

when these countries were granted independence more than a decade ago. In fact, Mongolia has performed far better on the democracy front than most countries in Asia, the Middle East or the former Soviet Union, including several countries that have in the past received far larger levels of U.S. assistance.

Faced with formidable economic obstacles and potentially difficult neighbors, Mongolia's democratic future is by no means assured. Yet USAID-funded activities have had impact and major progress is being made. The next round of elections—local and parliamentary elections are scheduled for summer 2004 and presidential elections are anticipated in spring 2005—will take place outside the period covered by the current USAID strategy. These elections will represent yet another milestone in Mongolia's political development. They will also provide an important test of the extent to which true democracy has been firmly rooted in one of the most unlikely of Central Asian nations.

#### **IV. Strategic Objective 2: Accelerate and Broaden Environmentally Sound Private Sector Growth**

The private sector element of the October 1998 strategy placed special emphasis on broad-based economic growth. Among other things, it highlighted the importance of not only accelerated economic growth but also growth with equity. *“The vision is to establish rapid, sustainable economic growth reaching increasing number of Mongolians,”* the narrative suggested. *“Economic growth accelerating to between five and seven percent per year by the end of the strategy is achievable.”*

A “problem identification” section noted that by the middle 1990s macroeconomic stability and a liberalized trading regime had been achieved. However, inefficiencies throughout the economy stymied private sector initiative. Also, additional investment, both domestic and international, was needed to set the stage for future economic growth. Specific constraints included a weak financial sector, significant state control, inadequate infrastructure and a shortage of skilled management and technical expertise. These problems, severe in Ulaanbaatar, were even more pervasive for the two-thirds of the population living outside the capital city.

Based on the discussion of these problem areas, the October 1998 strategy set forth four intermediate results to guide USAID program development and implementation throughout the FY 1998 – FY 1993 period:

*1. Transfer Productive Assets to Private Ownership:* Intermediate Result 2.1 set the stage for significant involvement in Mongolia's ongoing privatization process. Two other positive developments were associated with this effort, namely enhanced accountability and the generation of budget revenues for Government of Mongolia.

The two major USAID-funded programs launched under this IR—the Barents (later BearingPoint) engagement with the State Property Committee (SPC) and the DAI/PA Consulting program focused on energy—have met with some success. For example, the Barents privatization program, launched as the October 1998 USAID strategy was being

finalized, resulted in the sale of 47 government-owned enterprises through a sealed-bid auction process that raised more than \$15.4 million in revenue for the state. While the effort to privatize Gobi Cashmere foundered, Trade and Development Bank (TDB) was successfully privatized in December 2002, having been sold to an American led consortium that also involved Swiss and Dutch partners for \$12.2 million. USAID has also been involved in the prospective privatization of Agricultural Bank as well as several other government-owned companies, including the national oil company (NIC), airline (MIAT) and insurance company (MobiDatgal). From a Mongolian perspective, there is much less international interest in the country's major state owned companies than expected, providing an important "reality test" of the economic realities of the country as viewed by potential foreign investors.

Similarly, DAI/PA Consulting activity in the energy sector supports achievement of this intermediate result. Specific steps realized include passage of a new energy law and legal establishment of the Energy Regulatory Authority (ERA) in summer 2001. This was followed within a matter of months by the unbundling of the generation, transmission and distribution functions into 18 separate entities as well as ERA approval of the first energy licenses and tariff submissions. While this list of accomplishment is impressive, more recent steps to commercialize and ultimately privatize the energy sector seem painfully slow. Arrearages and the failure of consumers to pay their energy bills continue to loom as a significant concern. The problem will become even more acute in subsequent years, when payment comes due on Mongolia's energy loans that account for nearly half of the country's international debt.

2. *Increase the Efficiency of Financial Markets:* Intermediate Result 2.2 emphasized the importance of the financial sector in order to stimulate "increases in business activity, mobilizing domestic savings and attracting foreign investment." The October 1998 strategy envisaged USAID support for privatizing bank, reforming the pension system and strengthening the stock exchange. Advice on pension reform and improvements in the stock exchange have figured as modest elements of the program, but the real emphasis now is on specific banks, namely the Trade and Development Bank (TDB) and the AgBank, both of which has been privatized and the other of which stands on the brink of privatization.

In addition, the USAID-funded Gobi initiative helped create a micro finance program (Govi Ekhel) that recently merged with a similar UNDP-supported effort to form the privately owned XacBank, a new institution that could become a major player in delivering effective micro finance services to rural Mongolia. Very recently, USAID has provided advice on other areas that are critical to deepening and broadening Mongolia's financial sector, including in the area of insurance and development of a mortgage market. Finally, dialogue on the energy sector increasingly involves discussions on arrearage issues that have important implications for efficient financial markets in Mongolia.

3. *Improve the Business Environment:* Intermediate Result 2.3 described an ambitious menu of potential USAID-funded activities focused on policy reform, business information, access to knowledge, improved technologies and reliable support services and input supplies.

Some elements of the program envisaged in October 1998 are now being implemented, in large part through the Competitiveness Initiative and the Economic Policy Support Project (EPSP). For example, the ongoing “public-private sector partnership” officially launched in December 2001 involves both programs. Among other things, it has resulted in the creation of a website ([www.open-government.mn](http://www.open-government.mn)) in the Prime Minister’s office to solicit private sector feedback on pending legislation. The Competitiveness Initiative ([www.initiative.mn](http://www.initiative.mn)) is increasingly engaged with government counterparts on obstacles to business development related to tourism, cashmere and meat development. Some business association support is also being provided, especially to the Mongolian Tourist Association ([www.travelmongolia.org](http://www.travelmongolia.org)) that has seen a rapid growth in membership (from five to nearly eighty) as a result of ongoing USAID activity.

The October 1998 discussion also highlighted possible USAID support for rural energy development. In fact, a subsequent Mission assessment of the 18 diesel generators provided to rural *aimags* under the earlier USAID program resulted in a decision to discontinue the activity. Also, a USAID agreement with the US National Renewable Energy Laboratory was carried to conclusion, resulting in a published “wind atlas” that will be useful for the Mongolian government or for any donor interested in renewable energy development.

Finally, the discussion highlighted the strong linkages between effective business development and broader civil society concerns. The Prime Minister’s website highlighted above is perhaps the best example of how this “vision” has been worked out in the context of USAID activity, in this instance supporting both transparency and business development concerns. Elements of the judicial reform program also have useful cross-links with USAID’s broader business development concerns.

4. *Improve Management of Natural Resource Base for Long-Term Sustainable Use:* Intermediate Result 2.4 highlighted the fact that Mongolia’s herder economy as well as its growing tourist industry depends on preserving the country’s fragile natural resource base. Though impact here has probably been less significant than initially planned, it remains as an important concern. In particular, any expansion of the Gobi Initiative should be shaped to more directly address range management concerns.

The Lake Hovsgol program, mentioned in the strategy, concluded in December 2001. It established a park center, provided a radio network, initiated several community development activities and made a number of other useful contributions to the Hovsgol region. It also assisted the government in preparing a detailed submission to UNESCO aimed at having the Hovsgol region declared a “world heritage site,” a step that would have important and positive implications for tourism development in Mongolia. Toward the end of the project, the USAID program was also instrumental in substantially



increasing the park's "strictly protected area." However, the project was unable to bring about the systemic change in park management practices anticipated in the October 1998 strategy document. In general, the discussion on environmental issues provided in the strategy was too optimistic, not only about USAID-funded environmental programs but about those undertaken by other donors as well.

5. *Critical Assumptions:* According to the October 1998 strategy, achievement of the Mission's economic growth strategy hinged on three critical assumptions. The first assumption ("*the Government of Mongolia and the Great Mural continue to demonstrate the political will needed to adopt and implement the government's ambitious policy and institutional reform program*") has been partly met. Mongolia's broad commitment to policy and institutional reform is still very much in evidence. However, implementation of new laws has proved to be more complicated and more problematic than initially anticipated. The fact that Mongolia's commitment to market-based policy reform survived a change in government June 2000 is significant and was to some extent anticipated in the October 1998 strategy, which noted that "even the opposition MPRP argues only on the pace of economic liberalization, not its direction."

The second assumption ("*macroeconomic and world market conditions remain sufficiently stable to permit expanded economic growth*") also presents a mixed picture. Within Mongolia, macroeconomic stability has largely been achieved. However, exchange rate stability and a relatively modest inflation rate, important as they may be, have not yet translated into significant higher rates of growth. The disappointing state of the world economy is undoubtedly one important reason why. The October 1998 strategy was written at a time when the Asian economies were in crisis. More than three years later, the international economic down-turn following the September 11 attacks on the United States clouds the long-term economic picture for Mongolia still further. Even Mongolia's hard-earned macroeconomic stability could be under threat if government budget deficits, fueled by a large increase in civil service salaries, are not brought under control.

Finally, the third assumption ("*the Government of Mongolia and other donors continue social safety net programs and infrastructure investments to sustain democratic transition and facilitate economic growth*") has again been only partly met. Mongolia's social safety net is especially tattered. Concern is increasingly being expressed that one of Mongolia's greatest assets—its literate, well-educated population—is under threat. Also, the increasing trend toward private rather than donor investments in infrastructure that was anticipated in the strategy has yet to occur, despite USAID's best efforts to encourage policies that promote private sector investment in energy infrastructure in particular.

6. *Illustrative Approaches:* Virtually all the ongoing USAID-funded activities now underway in Mongolia was envisaged in the October 1998 strategy, including the Barents work on privatization; the several DAI/PA Consulting programs in energy; and the rural development activities implemented under the Gobi Initiative. In addition, a new program implemented by CHF International was recently launched, this one focused on business

development in the “*ger* districts” that have increasingly become the focus of rural-to-urban migration. Some more modest activities, such as the Global Technology Network (GTN) and a limited long-term participant training program are also underway. However, other activities mentioned in the October 1998 strategy—including planned work in capital markets, pension reform, customs, tax administration and business association development—has either not gone forward or has already been completed in more modest form.

7. *Sustainability*: The discussion on sustainability is quite brief but makes all the right points. Private sector growth hinges on improved management and efficiency. Public sector sustainability involves improved fiscal management as well as a more limited, rationalized approach to government. The sentiments expressed remain as true today as when written more than three years ago.

8. *Measuring Results*: According to the October 1998 strategy, “*the principal measure of achievement of the strategic objective will be growth in the private sector contribution to Gross Domestic Product.*” By this measure, the program has been very successful: in 1997, Mongolia’s private sector accounted for less than 70 percent of GDP; by early 2002, the 75 percent target mentioned in the strategy had already been met a year ahead of time. Accurate measurement of the contribution of the vibrant non-formal sector to Mongolia’s economy might increase the figure still further.

The October 1998 strategy also referred to an average annual growth rate of five percent in the private sector, with a secondary figure that excludes mining also put forward as another possible indicator of program success. In fact, the private sector grew by six percent in 1999 but declined by 0.5 percent in 2000. For 2001, the figures are estimated at around one percent, in part on account of the economic down-turn experienced as a result of the *zhud*. Other indicators described in the strategy—for example, investment as a share of GDP and incidence of poverty—have proven to be more problematic or difficult to measure. However, the discussion did suggest that “USAID’s activities will help to avert any increase in the incidence of poverty over the program period.”

Official poverty estimates, while holding stubbornly at around 36 percent, don’t appear to have grown significantly over the last four years. However, comment is increasingly being made about the growth in the “*ger* districts” surrounding the urban fringes of Ulaanbaatar, Darkhan and Erdenet, areas that are increasingly becoming the focus of rural-to-urban migration as country dwellers are forced to seek new economic opportunity in the few real cities of Mongolia. So too, growing international migration—there is an especially large Mongolian community in Korea, but overseas Mongolians also account for growing amounts of remittance income received from Japan, the US, Europe and elsewhere—is an increasingly important issue that was not really reflected in the October 1998 USAID strategy document.

9. *Summary Statement*: The economic analysis provided in the October 1998 USAID strategy, as with the corresponding political analysis, holds up relatively well over time. Most notably, perhaps, the strategy identified a set of specific issues that are critical for

Mongolia. This accurate identification of main problem areas ensured that USAID was heavily engaged in significant areas of concern that are absolutely vital to the country's future. As is often the case in strategy development, the set of activities envisaged was at times overly ambitious. In retrospect, the anticipated impact appears to have been overly optimistic, at least within time frame established. In Mongolia, as in so many other areas of the former Soviet bloc, significant change will be effected over generations, not within a single five-year planning period.

That said, the strategy anticipated and ultimately helped bring about important changes in Mongolia's economic landscape. Perhaps most impressive is the impressive expansion of the private sector as a share of Mongolia's economy from less than 70 percent in 1997 to nearly 80 percent less than four years later. USAID also provided some extraordinary input into the strengthening of Mongolia's financial markets, especially with its highly successful management contract with Agricultural Bank; its help in establishing XacBank; and its support for the Trade and Development Bank. Against all odds and despite the skepticism of virtually every other donor organization, USAID inputs brought the Agricultural Bank back from the brink of liquidation and turned into a viable, tax-paying institution. This timely support demonstrated to the entire country that a commercial enterprise, if run along commercial lines, could be successful in the Mongolian financial environment. Prospects for XacBank also seem quite promising, especially if potential international private investors such as Shore Bank (Chicago) and Triados (Netherlands) become involved. In addition, USAID continues to make notable contributions toward an improved business environment, in part through its sector level interventions in cashmere and tourism (involvement in the meat sector was dropped in summer 2002) and in part through its support for a broader public-private sector partnership program.

## **V. Strengthening the Strategy with Internet Technologies**

Intriguingly, the October 1998 strategy included a special section on "strengthening the strategy with internet technologies." In effect introducing IT as a cross-cutting theme, it noted that Mongolia could partly overcome the challenges posed by vast distances and its isolation from the rest of the world through the use of new information technologies. It also suggested a number of ways that USAID might explore and possibly support, including strengthened policy development, more networking among NGOs, and wider distribution of legal and other materials. Finally, it promised that "small experiments" would be implemented during the first two years of the strategy, with a view toward expanding successful ones at a later stage.

In fact, as the final third of the strategy period unfolds, a number of interesting IT-related initiatives have been introduced. The development of the Prime Minister's website has already been mentioned. In addition, USAID directly supported automation of Ulaanbaatar's capital city court, responsible for almost half the appeal cases in Mongolia. New computer databases now provide instant access and status reports on pending cases, not only for judges and lawyers but also to members of the general public. According to the chief court administrator, this innovation represents a "revolution" within the

Mongolian judiciary that should eventually result in many more court room computerization programs across the country. Looking ahead, the Gobi Initiative is now considering a distance learning element that would further advance IT concerns in Mongolia. Remaining funds from the USAID-funded Global Technology Network (GTN) program are also being focused entirely on IT issues in Mongolia, among other things leading to the involvement of “Geek Corps” in providing IT support to private Mongolian companies on a pilot basis. A more detailed survey of USAID-funded contributions to IT development in the country is provided in Annex D.

## **VI. Resource Requirements**

*1. Program Funding:* The October 1998 strategy presented a “high funding” scenario that anticipated funding levels on the order of \$12 million each year between FY 1999 and FY 2002. The total amount envisaged was \$48 million, with approximately three-fourths of the funding directed toward economic growth activities and about one-fourth targeted on democracy and civil society. A “medium” suggested allocations of around \$40 million. A “low budget” scenario suggested only \$24 million, a level that would “call into question the ability of the U.S. government to respond to the current window of opportunity for rapid policy change.”

Actual funding levels for USAID/Mongolia turned out to be slightly less than anticipated under the “high funding” scenario but more than anticipated under the “medium” scenario: \$11 million in FY 1999; \$10 million in FY 2000; \$12 million in FY 2001 and \$12 million in FY 2002. Added together, total funding for the four-year period was \$45 million, well within the parameters envisaged at the outset of the strategy.

*2. Staffing and Operating Expenses:* In contrast, staffing requirements outlined in the October 1998 strategy have not been met. This appears to be the result of a conscious decision on the part of the Mission rather than because of inadequate OE or program funding levels (both American and Mongolian program PSCs have historically been program funded). With an annual OE budget of around \$300,000 - \$350,000, USAID/Mongolia must certainly rank among the smallest and most cost-effective country programs in the Agency.

When the strategy was prepared, USAID/Mongolia consisted of a Mission Director; a part-time program-funded US personal service contractor (PSC) and four foreign service nationals (FSNs). The hiring of at least two more US PSCs was contemplated, including one to coordinate the economic growth portfolio and another to support the democracy portfolio. Three additional FSN positions were also envisaged, along with a contract to help verify the results of USAID activity in the countryside.

In fact, as USAID/Mongolia enters the final third of the current strategy period, staffing levels are approximately the same as in fall 1998: there is one more FSN professional, but at this point no US PSCs. Given urgent staffing requirements at new USAID Missions in Pakistan and Afghanistan, USAID/Mongolia does not believe it is appropriate to make the case for additional OE-funded staff. However, it is contemplating a return to a

situation in which at least one program-funded US PSC is aboard, especially if funding levels remain relatively stable over the next couple of years. In fact, a new program-funded US PSC is expected to start work in Ulaanbaatar in May 2003.

One other point needs to be highlighted: it would not have been possible to implement the strategy effectively without strong support from USAID/Philippines and USAID/Washington. With regard to Manila, this support has been especially vital in connection with all functions related to accounting, contracting, legal services and administrative support. With regard to Washington, it has been most important in strengthening the Mission's oversight capacity in important areas such as democracy and energy. The fall 1998 strategy discussion included a commitment to this type of support over the strategy period. From the viewpoint of the Mission, this commitment has in fact been met.

*3. Management Concerns:* Finally, the strategy highlighted a number of management concerns in view of the limited staffing resources available to the Mission. Among other things, it emphasized the importance of an appropriate "phasing" of activities and a judicious selection of contracting instruments. Specifically, the number of management units which was placed at eight in 1998 and was expected to increase to 11 in 1999 and again in 2000. In addition, the strategy anticipated that the Mission would at most be managing only two contracts.

These expectations have been partly met. For all practical purposes, the Mission now manages seven major grants or cooperative agreements, two of them (both cooperative agreements) related to the democracy SO and five of them (three contracts and two cooperative agreement) related to the economic growth SO. It is these seven activities represent the Mission's "core" portfolio and it is these seven activities that make the most substantive contribution toward achieving our strategic objectives.

In addition, a number of much smaller activities have on occasion added to the Mission's management responsibility. Some of these items include the GTN program; a small scholarship program administered by the Academy for Educational Development (AED); an even smaller number of Eisenhower Exchange fellowships; processing of participants for the US Telecommunications Training Institute; an agreement with the US National Renewable Energy Laboratory to produce a wind atlas with Mongolia; an agreement with the US Customs Service for customs training; small programs administered by the Asia Foundation and the International Development Law Institute (IDLI); the Lake Hovsgol program through the Department of Interior; the ACDI/VOCA program; a Congressionally mandated grant to the Dom Bosco Technical Training School in Ulaanbaatar; an urban development linkage between Ulaanbaatar and Bakersfield, California; and an energy partnership between Mongolia's Energy Regulatory Authority (ERA) and the Minnesota public utility commission.

As this list suggests, it is not always easy to resist political pressure to "do more" and it is all too easy for small project activity to proliferate. Nonetheless, there has been a gradual consolidation and elimination of a number of activities over time. This consolidation will

continue into summer 2003, with the conclusion of the EPSP, privatization and competitiveness initiatives and the development of a new multi-year program that consolidates elements of all three programs into a new, multi-year policy project. As the current strategy period draws to a close, the USAID/Mongolia portfolio is more consolidated, more cohesive and more sharply focused than perhaps at any time over the past decade.

## **VIII. Conclusions and Recommendations**

This internal evaluation has attempted to provide a candid and detailed assessment of the Mission's current strategy document, with a view toward reaching conclusions on "next steps" in the strategy development process. The fact that such an evaluation was done at all is somewhat unusual. More typically, strategies are overtaken by events and then consigned to a bookshelf (or rubbish bin!) without ever having been subjected to a serious "second look," whether internal or external.

In reviewing Mission performance when set against the goals established in the strategy, it becomes clear that the document presented to Washington in October 1998 has proved to be well conceived and durable. Not surprisingly, reality has not in every case matched the expectations or goals put forward in the strategy. Nonetheless, if the main intent of a USAID country strategy is to ensure focus as well as involvement in the central issues facing a particular country, the USAID/Mongolia strategy has certainly been effective and more than done its job. Among other things, it provided cohesion and focus to the Mission program; ensured that USAID was deeply involved in some of the most significant issues facing the country; and set in motion a series of activities that are proving effective and achieving results.

The strategic framework was useful in other ways. For example, it set in motion the first systematic effort at rural development in Mongolia, placing USAID at the forefront of this important issue. It also played a catalytic role in shaping a more unified donor response on a number of issues, including financial sector reform, privatization, energy and judicial reform. USAID's persistent (and insistent) lobbying for a more strategic approach in these areas hopefully provides a foundation for a more systematic and unified donor response in the future. The USAID emphasis on pragmatic results—perhaps best typified by the turn-around of the Agricultural Bank—reflects another notable achievement of the strategy period.

Yet the failure of Mongolia to enter into a period of sustained economic growth casts a shadow over the strategy as well as the country's long-term development prospects. Anticipated annual growth rates of five percent simply have not materialized. If these growth rates do not increase, Mongolia will have difficulty meeting its international debt obligations. There is also little chance that it will be able to improve living standards, especially for the one in three Mongolians still living below the poverty level. Is the current economic stagnation only a short-term trend, linked to the combined effects of the East Asian economic downturn, two successive and extraordinarily harsh *zhuds* and economic problems associated with the post September 11 recession? Has the impact of

the economic stagnation been “cushioned” to some extent by a seemingly vibrant informal sector? And are some important potential sources of growth, including remittances from international migration, simply not reflected in the official statistics at all? These issues remain murky and to some extent cloud a real understanding of Mongolia’s economic situation. At the same time, they underscore yet again the importance of focusing more rather than less effort on interventions that strengthen prospects for long-term economic growth.

As the period covered by the 1998–2003 draws to a close, USAID/Mongolia will shortly present a new strategy for Washington approval. From a Mission standpoint, one of the chief “lessons learned” from the current strategy period is that the selection of two SOs that were broad enough to provide flexibility but narrow enough to ensure focus was on-target and made a difference. Perhaps most notably, the strategy remained relevant in the face of significant external events that could not have been foreseen at the time, including the return of the MPRP to an overwhelmingly dominant position in Mongolian politics and the sea-change in world affairs following the attacks on the United States on September 11, 2001.

Some monitoring tools have proved to be less effective than initially planned. In particular, the effort devoted to a detailed and overly ambitious monitoring plan was probably misplaced given the small size of the Mission, the complex set of targets and indicators proposed and the fact that some of them were rendered irrelevant not long after they were introduced (various indicators have been “dropped” each year as they have proved to be either unwieldy or less than relevant as a monitoring device). As a management tool, the Annual Report combined with regular monthly reporting are almost certainly the most useful tools to monitor progress in the USAID program in Mongolia over time.

Adjustments at the IR level are undoubtedly required. In particular, the fact that the Gobi Initiative, which formed part of the democracy SO in the strategy, was subsequently moved to the economic SO causes an “imbalance” that to some extent puts the current program out of sync with strategic framework provided in the October 1998 document. In addition, the clear demarcation between “urban” and “rural” Mongolia seems to some extent less compelling than three years ago. In this context, the growth of *ger* districts outside Mongolia’s cities and towns suggest the emergence of a “peri urban” Mongolia that is neither entirely urban nor entirely rural, setting in motion a number of issues that so far are not being adequately addressed by USAID or other donors. Concerns of this type need to be looked at more seriously in the new strategy. In fact, the new CHF program targeted on peri urban Mongolia is designed to address just this concern.

At the same time, not enough has changed over the last four years to warrant a significant reordering of the major strategic structure of the USAID program in Mongolia. The current emphasis on economic growth and democracy is absolutely on target and achieving results. Even if an entirely new strategy making process were to be launched with complete ignorance of what had gone on before, the end result would almost certainly be to maintain the current focus on these two critical areas.

Looking ahead, considerable uncertainty surrounds future funding levels for Mongolia. Continued stability with funding levels remaining at around \$12 million annually would make effective programming into a post 2003 strategy period much easier. Significant reductions would be more difficult to plan for, especially in the absence of much advance notice. There is even some prospect for expanded foreign assistance, especially if President Bush's recent announcement on merit-based funding allocations via the Millennium Challenge Account (MCA) is implemented in 2004.

From a Mongolian perspective, aid allocations based on progress in political and economic reform would have been welcome throughout the last decade. Indeed, if such criteria had been unemployed, aid levels for Mongolia would surely have outpaced those of its five Central Asia neighbors who, in the memorable words of a recent *Washington Post* editorial (February 2002) remain "a sinkhole of economic failure and political repression." Under such an approach, Mongolia's relative importance to the US foreign assistance effort could become more rather than less significant. Here again, as in a "low" or "medium" funding scenario, the twin emphasis on further strengthening the economic and political reform process in Mongolia would almost certainly remain unchanged.

In sum, the Mission is convinced that a twin strategic focus on economic and political change needs to be maintained, while incorporating certain adjustments at the IR level. In effect, the current strategy—combined with this strategy assessment and recent annual reports—can be regarded as an appropriate "concept paper," one that provides a useful framework for the new post 2003 strategy that is now being drafted and should be formally presented to Washington later this year.



**ANNEX A:**  
**ESTIMATED USAID/MONGOLIA FUNDING LEVELS, FY 1991 - 2002**

<b>Fiscal Year</b>	<b>ESF</b>	<b>FSA</b>	<b>DA</b>	<b>Total</b>
1991	\$10.0 million		\$2.0 million	\$12.0 million
1992	\$12.0 million		\$2.9 million	\$14.9 million
1993	\$8.1 million		\$2.2 million	\$10.3 million
1994			\$7.0 million	\$7.0 million
1995	\$3.5 million		\$5.2 million	\$8.7 million
1996	\$4.5 million		\$1.2 million	\$5.7 million
1997	\$7.0 million		\$3.0 million	\$10.0 million
1998	\$8.0 million		\$4.0 million	\$12.0 million
1999	\$0.5 million	\$10.0 million		\$10.5 million
2000	\$6.0 million	\$6.0 million		\$12.0 million
2001	\$12.0 million			\$12.0 million
2002	\$12.0 million			\$12.0 million
<b>TOTAL</b>	<b>\$83.6 million</b>	<b>\$16.0 million</b>	<b>\$27.5 million</b>	<b>\$127.1 million</b>

**ANNEX B:**  
**A NOTE ON USAID/MONGOLIA STAFFING PATTERNS**

Over the past decade, USAID has maintained a field presence in Mongolia with possibly the smallest staffing level of any Mission anywhere in the Agency. At this point, staffing consists of a single USDH Mission Director along with a six-person Mongolian staff, two of whom are OE funded (one administrative assistant and one driver) and four of whom are program funded (three professional staff and one administrative assistant). After a long hiatus, a new program-funded US PSC with substantial USAID experience is expected to join the Mission in May 2003.

As this document is being finalized, the USAID/Mongolia staffing pattern consists of the following program staff (January 2003):

1. D. Sukhgerel (Development Assistance Specialist), joined June 1992
2. H. Mendsaihan (Project Management Assistance), joined September 1995
3. Ts. Oyunbelig (Economist/Development Assistance Specialist), joined October 1999
4. J. Tserendolgor (Administrative Assistance), joined February 1997
5. L. Narmandal (Administrative Assistance), joined December 1998
6. D. Luvsantseren (Driver), joined August 2000

Additionally, present and past Mission Directors and Country Representatives to USAID/Mongolia include the following:

1. Jonathan Addleton, 2001 – present
2. Ed Birgells, 1997 - 2001
3. Chuck Howell, 1995 – 1996
4. Bill Nance, 1992 – 1994
5. Robert Friedline, 1991 – 1992

Calista Downey was the USAID/Washington Desk Officer for much of this period, providing important continuity throughout the first decade of the USAID program in Mongolia.

**ANNEX C:**  
**PROGRAM OVERVIEW (DECEMBER 2002)**

**ANNEX D:**  
**BACKGROUND NOTES ON EARLY**  
**USAID-FUNDED ACTIVITY IN MONGOLIA**  
**RELATED TO DEMOCRACY/CIVIL SOCIETY**

The focus of this program assessment is on the period covered by the October 1998 *USAID Strategic Plan for Mongolia*. Nonetheless, the review process also involved consultations with a number of individuals and organizations involved during the early years of USAID activity in Mongolia. In particular, Sheldon Severinghaus, Mongolia country representative for the Asia Foundation during the period 1993–1998, provided a summary of some of the USAID-funded contributions that shed important light on the development of Mongolia as well as the USAID program related to democracy and civil society during these years. Main highlights from these useful recollections follow below.

***Background***

In January 1990 the Mongolian Mission to the United Nations approached the Asia Foundation to seek assistance for the democratic transition that was already underway. The Asia Foundation responded immediately, relying first on funds available under its “general grant” provided under the US Foreign Assistance Act. A year later (1991), the Asia Foundation received its first direct USAID grant specifically focused on Mongolia. And, two years after that (1993), the Asia Foundation opened a resident office in Ulaanbaatar.

The intent of the first USAID grant to the Asian Foundation was to address the “political, legal, judicial and civil society elements” that were emerging in Mongolia’s rapid transition to democracy. At the time, the Konrad Adenauer Foundation was the only other foreign organization substantively involved in issues related to democracy and civil society. Later, the International Republican Institute (IRI) and various other international organizations also began offering additional support.

***Summary of Activity, 1991 – 1998***

In retrospect, the impact of this early USAID-funded involvement in Mongolia’s democratic transition becomes even clearer. Hundreds of people were trained. Workshops, seminars and technical assistance were organized to emphasize key themes such as civil society, transparency and accountability. In addition, USAID-funded programs played an important role in shaping some of the key structures and processes that continue to mark Mongolia’s transition to democracy, a transition in which Mongolia has out-paced its other Central Asian neighbors by a significant margin.

Initial programs funded out of the Asia Foundation’s general grant during 1990-1991 provided international experience and expertise as Mongolia drafted its new constitution and prepared its first election law. Later assistance, provided directly under a grant from USAID/Mongolia, included the following:

1. *Great Hural*: Early USAID-funded support through the Asia Foundation included consultancies, study tours, training programs and fellowships. These helped inform decisions related to the setting up of parliament's new structure, organization, management, policies and procedures. Staff as well as members of parliament participated in study tours to other legislative bodies in Asia. The intent was, first, to help Mongolia establish an effective parliament; and, second, to integrate Mongolia into a world scene from which it had been notably absent during the preceding seven decades.
2. *Elections and Election Law*: Early support included grants to the Voter Education Center affiliated with the Women for Social Progress (WSP). This group in turn played a useful role in educating the public prior to Mongolia's landmark 1996 elections that brought the democratic opposition to power. It also helped ensure public access to parliament and introduced the first computer database summarizing the political platforms of the various parties and the biographies of those seeking to be elected. Using USAID funds, the Asia Foundation also organized several election law roundtables and provided technical assistance from the Federal Election Commission during these years.
3. *Legal Reform*: When the Mongolians worked to develop a new on courts, USAID funds were used provide advisory services and to organize a tour of comparative legal systems in the US and South Korea. Once the new law was passed in 1993, a follow-on program, also funded by USAID, brought every judge in Mongolia to Ulaanbaatar for a three day workshop on the new law. Similar training was provided to all judges following revisions to the criminal and procedure codes.
4. *Law Drafting*: During these early years, USAID funds provided to the Asia Foundation contributed to the development of the following laws: (1) NGO law; (2) media law; (3) environmental protection law; (4) law on courts; (5) civil and criminal procedure laws; (6) family law; and (7) domestic violence law (this was eventually appended to the family law). Although some of these laws have subsequently been revised or replaced, the support was important in introducing new ideas and procedures at a time when the entire legal system was undergoing widespread change. Some of the legal support work was done through grants to local NGOs, such as grants to the Consumer Foundation, the Center for Citizenship Education and the Women's Lawyer's Association.
5. *NGOs and Civil Society*: These early democracy programs also played a significant role in building Mongolia's nascent non-governmental sector at a time when it was at its most fragile. Later, it helped develop the new NGO law passed in January 1997, a law that is still regarded as meeting international standards despite some ongoing attempts to change it. The list of small grants provided to local organizations during these years reads like a "Who's Who" among Mongolian NGOs: Free and Democratic Journalists Association; Press Institute of Mongolia; Mongolian Association for the Conservation of Nature and Environment; Mongolian Association

for the Independence of Judges and Lawyers; Consumer Protection Association; Mongolian Chamber of Commerce and Industry; *Tsekh* (a constitutional oversight NGO); Center for Human Rights and Social Studies; Liberal Women's Brain Pool; Women for Social Progress; Women Lawyers Association; Center Against Violence; Women Economists Club; Women's Research and Information Center; Young Leader's Club; Center for Citizenship Education; and the Political Education Academy, among others.

6. *Women in Public Affairs*: As the names of many of the organizations supported by USAID through the Asian Foundation suggest, WID concerns figured prominently in the programming of NGO grants. Organizations such as the Liberal Women's Brain Pool, Women for Social Program, Women Lawyers Association, Center Against Violence and others have played and continue to play a useful role in advancing women's concerns in Mongolia. In addition, all eight women elected to parliament in 1996 participated in USAID-funded training programs. Mongolia's first female Minister of Foreign Affairs (N. Tuya) was also associated with a USAID-supported human rights organization.
7. *Rural Programs*: Though the October 1998 strategy launched a significant USAID effort in the Mongolian countryside through the Gobi Initiative, earlier programs had also included a rural component. In particular, USAID grants to urban-based NGOs were sometimes predicated on expanding NGO outreach to the countryside, in part by opening new branch offices in more distant *aimags* and *soums*. Training programs also developed material aimed at rural audiences and actively sought out rural participants. This early work was helpful in developing what later became the Gobi Initiative.
8. *International Engagement*: Finally, early Asia Foundation activity funded by USAID played a useful role as Mongolian increasingly participated on the world stage, not only in Asia but also beyond. In particular, USAID funded a number of study tours to Asia and the US as a means of reintegrating Mongolia back into the international community

### **Concluding Comment**

Although by no means complete, this summary gives a sense for some of the "forgotten" history of USAID-supported activity in Mongolia during the early and mid 1990s. Programs were especially vital in the early years, when Mongolia was re-entering the world scene and expressed a strong interest in learning from the experience of others. So too, seemingly modest initial technical assistance and training programs undoubtedly played a role in shaping some of the institutions and processes that are vital to Mongolian democracy today. To some extent, these programs provided a foundation for the 1998–2003 USAID strategy period, just as programs now underway will undoubtedly help shape USAID activities in Mongolia over the next several years.

**ANNEX E:**  
**BACKGROUND NOTES ON EARLY**  
**USAID-FUNDED ACTIVITY IN MONGOLIA**  
**RELATED TO ECONOMIC POLICY REFORM**

Over the past nine years, the long-standing Economic Policy Reform Project (EPSP) implemented by DAI provided USAID/Mongolia with an opportunity to help shape some of the most significant economic policy decisions taken by the Government of Mongolia. This was especially the case in the aftermath of the 1996 elections, when a new and reformist-minded government assumed power. Based on contributions provided by William Bikalis, EPSP Chief of Party between 1996 and 2001, the following section highlights some of the main areas of USAID involvement during this important period.

**The Policy Situation in Mongolia, c. June 1996**

As of June 1996, Mongolia appeared to be following a “go slow” path toward economic reform. The warning signs were obvious:

- Privatization was at a standstill
- Industry was still state-dominated
- The commercial banking sector was dominated by state-owned banks or banks owned largely by state-owned enterprises
- With the exception of the Trade and Development Bank (TDB), the commercial banking sector was largely insolvent.
- Discussion had not yet begun about introducing private ownership and market principles to key infrastructure sectors
- Social sector policy debate was largely a continual battle over wage increases
- Prices of key consumer goods such as flour and meat, even when provided by private businesses, were still overseen by government “Price Consensus commissions”.
- Utility tariffs had not been adjusted for nearly two years, during which time annual overall inflation rates were estimated at around 75 percent.
- The power and coal sectors were operating at a large loss, were failing to maintain their plant properly, and were imposing growing financial burdens on the banking sector and the budget.

Some gains had been achieved, including an impressive improvement in macroeconomic stability and a restoration economic growth by around 1994. Some reforms, particularly, privatization of very small businesses and agricultural herds, had been continued and largely completed during the early years of the 1992-1996 regime government headed by Prime Minister Jasrai. But large flows of foreign aid appeared to ease the pressure for further action and, by 1996, serious economic reform in Mongolia appeared to have grounded to a standstill.

## **June 1996 Elections and After**

Surprisingly, the June 1996 elections resulted in the emergence of a strongly reformist Democratic Coalition in parliament. This in turn led to the appointment of a new cabinet headed Mendsaikhany Enkhsaikhan, a dynamic economist with a commitment to more far-reaching reform. His emergence created an important opportunity to move the economic reform process in Mongolia to a much higher level. The change of economic philosophy that occurred at this time was almost as dramatic as in the initial period immediately following the collapse of communism.

Most donors were unprepared to respond immediately to these new developments, having organized their programs largely around the themes emphasized by the old government. However, at this critical moment the USAID-funded EPSP was poised to respond with speed and flexibility to a changing situation and new requests. It also laid the foundation for an extended period of close cooperation in implementing an ambitious economic reform program, one that continued throughout the current strategy period.

The USAID-funded assistance reflected three main phases:

1. Assistance related to the formulation of the new government's economic agenda and with its subsequent dialogue with the international community.
2. Assistance to support a number of critical early actions aimed at addressing urgent economic problems and establishing a new liberal environment. Specific steps included abolition of government price-setting bodies, the quick launch of a housing privatization initiative to jump start privatization, major adjustments in public utility prices, and the closure of two large insolvent commercial banks.
3. Assistance to support the design and implementation of more long term structural reforms in energy, privatization, banking and pensions. During this phase, USAID programs continued to provide advice on specific economic policy issues. Assistance was also provided related to the government's abolition of all customs tariffs in 1998 as well as on foreign investment promotion, among other policy areas.

### ***Phase One: Assistance in formulating new reform agenda (August 1996-September 1996)***

The Enkhsaikhan Cabinet was formed in late July 1996 following slight delays caused by unexpected Constitutional Court rulings that barred members of parliament from serving in the cabinet. EPSP, attached to the Office of the Prime Minister, established contact with Mr. Enkhsaikhan even before the cabinet was formed and initiated discussions on possible areas of future cooperation. Shortly thereafter, Mr. Enkhsaikhan made two critical decisions regarding future cooperation. First, he asked that the three Mongolian economists associated with the EPSP leave the project and serve as his economic



advisors. One of the three, Mr. Ts. Batbold, became his Senior Economic Advisor. Second, it was agreed that EPSP would organize a weekend workshop in August for the new Cabinet to discuss the new government's economic reform agenda.

The workshop was held August 16-18 (1996) at a guesthouse outside Ulaanbaatar. The entire cabinet attended along with the chief of the cabinet secretariat and the head of the State Property Committee. In addition, the deputy governor of the Bank of Mongolia and two key members of parliament attended most sessions. The EPSP recruited four consultants to speak at the workshop. These speakers included current or former senior advisors to the Solidarity Government in Poland and the Yeltsin Government in Russia and the Prime Minister of Estonia. The EPSP Chief of Party (Bill Bikales) opened the workshop with a discussion of fiscal policy. EPSP also helped prepare the workshop agenda and assisted with drafting all documents.

The workshop concluded with approval of a concrete economic reform agenda for the upcoming year. Major items included elimination of price controls; abolition of the Price Consensus Commissions; initiation of a much stronger bank restructuring plan than had previously been planned; initiation of a new and much more rapid privatization program starting with housing privatization (a topic addressed in some detail by one workshop speaker); introduction of a new fiscal policy emphasizing smaller government; and new approaches to aid coordination and social issues.

Finally, the Prime Minister requested EPSP assistance in drafting a letter to Mongolia's donors aimed at introducing the government's reform agenda. This was sent and received very favorable responses from the IMF, World Bank and Asian Development Bank.

### ***Phase Two: Urgent Measures to Confront Critical Problems***

The agenda approved at the cabinet workshop guided the government's policy making for its first year and longer. Indeed, several concrete actions were soon taken as a result of these discussions. These include an increase in energy prices; the elimination of price consensus commissions; the closure of two insolvent banks; the launch of a new privatization program, including rapid steps to privatize urban housing; new pension rules; and immediate discussions with multilateral donors on the need to craft new programs to deal with the crisis in the financial sector. Two actions—the adjustment in utility prices and the closure of problem banks—had especially significant long term consequences.

*Energy prices:* Mongolia had last adjusted electricity, heat and petroleum prices in November 1994, some eighteen months prior to the June 1996 elections. Meanwhile, coal prices had not been adjusted since June 1994. The energy sector lost more than one billion togrog in 1995 and another four billion togrog in 1996. At the same time, distorted prices were creating a massive web of debts between coal mines, railway, power plants, petroleum distributor and other government organizations. This disrupted production and caused strains on banks, in turn forcing periodic injections of liquidity to

keep utilities functioning. In addition, disagreements over approaches to energy pricing emerged as the most important factor leading to a breakdown in the agreement between the IMF and the previous government.

Problems with energy prices and the need to move quickly were key themes at the Cabinet workshop, with the prime minister later commenting that the discussions had completely changed his views on the subject. Following agreement at the Cabinet workshop to raise utility prices, EPSP economists worked with the Prime Minister's Office, the Ministry of Finance and the Ministry of Infrastructure to finalize details. In September 2002, increases on the order of 50-60 percent were approved for electricity, heat, coal and petroleum product prices. Other price increases followed. Overall, during its first year the new government raised electricity prices by 137.5 percent for organizations and 120 percent for households; heating prices increased by 194 percent for organizations and 100 percent for households. Also, coal price increases ranged from 177 to 192 percent. Under a new "lifeline" policy, households continued to receive a fixed small amount of electricity at the previous low prices. After an initial 45-55 percent, the price of petroleum products was left to market forces.

Not surprisingly, the price increases had a dramatic effect, ensuring that the energy sector earned a profit of 3.6 billion togrog in the first half of 1997 and making additional funding available to help cover maintenance and investment costs. More than any other step, the price increase also helped convince the multilateral donor agencies that the new government was serious about economic reform. At the same time, it paved the way for important "next steps" related to commercialization and privatization in the energy sector.

*Banking Sector:* The new government inherited a banking system in crisis. Customer confidence weakened ever further during the first half of 1996. Withdrawals were taking place at an accelerating pace, causing severe strains on a banking system that was already burdened by very weak loan assets. Four of the five largest banks in the country, including the People's Bank, were insolvent. No bank was liquid enough to withstand a sustained run on capital, making the possibility of a major systemic collapse very real.

At the same time, the financial sector strategy developed by the previous government in cooperation with the Asian Development Bank had taken a very soft approach to dealing with problem banks. The fact that the financial crisis had not yet hit East Asia and the lessons of the banking crises in Central and Eastern Europe had not yet been absorbed by policymakers meant that the "alarm bells" were perhaps not as loud as they should have been. Yet, given the rapidly deteriorating situation in Mongolia's financial sector, there was an urgent need for stronger measures to cut the hopelessly insolvent banks out of the system and develop a credible program for remaining banks.

The August 1996 workshop included a detailed presentation of the problems in the banking sector as well as an analysis of government options. Subsequently, a decision was made to invite the IMF to play an active role in developing a banking sector plan.

For most of September, October and November intensive discussions took place among representatives of the Government of Mongolia (Prime Minister's Office, Ministry of Finance, Central Bank), the IMF and the ADB. The EPSP Chief of Party was a core participant in all these discussions. In mid-November a plan was finalized for closing the largest and fourth largest banks in the country. The government requested urgent EPSP assistance. The project responded almost immediately, providing two American bank closure experts with transition economy experience to work with IMF experts. The closure of the two banks on December 13 caused little panic or macroeconomic disruption and replacement institutions were opened by the following Monday. A National Savings Bank was created. In addition to the immediate improvement that resulted in the banking sector's financial health, the action sent a strong signal to the remaining commercial banks that no bank was too big to fail and that both managers and owners would be held accountable for their performance.

### ***Phase Three: USAID-Supported Longer-Term Reform Programs***

Intensive USAID involvement in the initial formulation and implementation of the government's reform strategy led naturally into a major program of support in the following years. As a result, USAID emerged as a key provider of technical assistance to the Mongolian government in the banking and energy sectors as well as in privatization, pension reform, and agricultural development. In addition, USAID advisors played important roles in a number of other major reform initiatives, including the abolition of import duties in March 1997.

Key contributions during this period include:

*Banking Sector Reform:* The Mongolian banker sector recovered relatively well following closure of the People's and Insurance Banks. However, by early 1998 concerns began to surround the operations of three other large commercial banks, the Bank of Investment and Technological Innovation, the Agricultural Bank, and the Reconstruction Bank (this latter bank had been established following the 1996 bank closures at the insistence of the Asian Development Bank). Once again, discussions among Mongolian officials, USAID, the IMF and the ADB led to a strategy under which USAID-funded advisors, fielded by the EPSP, worked at each of these banks to assess the existing situation and then develop strategies for either restructuring or closure.

As a result, both the Reconstruction Bank and the Bank of Investment and Technological Innovation both had their licenses revoked and closed in 2000. In addition, agreement was reached with the Bank of Mongolia and State Property Committee (in close coordination with the World Bank and IMF) for the GOM to recapitalize the Agricultural Bank and sign a USAID-funded management contract with DAI under the EPSP project. The contract was signed in July 2000. Almost immediately, EPSP mobilized an American CEO and COO for the bank, along with a new senior Mongolian management team.

Looking back, it is clear that USAID through EPSP played a central role in a complete the restructuring of Mongolia's banking sector between 1996 and 2001. Three of the five large government-owned banks that dominated the sector in 1996 were closed. A fourth, Agricultural Bank, was placed under a highly innovative and extremely successful management contract, transforming the bank from bankruptcy to profitability in a matter of months. Trade and Development Bank, the last of the surviving banks, was put on a course toward privatization, with the USAID-funded Barents team playing a key role in the privatization. Over a period of five years, Mongolia's banking sector, previously dominated by bankrupt, state-owned financial dinosaurs, emerged as a stronger and more viable contributor to the economy, one in which the private sector began playing a far more significant role.

*Energy Sector Restructuring and Commercialization:* In October 1997, EPSP economists prepared a study of the economic health of the Mongolian energy sector. The report concluded as follows: "As a result of the price increases for electricity, heat and coal there has been a marked improvement in the financial situation of the energy sector over the last year. This is reflected in a dramatic turnaround in the profitability of the energy system, as reported in their financial statements.... (However) analysis of the financial situation of the two main power plants, #3 and #4, suggests that the improved financial situation of the energy system as a whole has not yet led to any improvements in the conditions of the power plants themselves. Although price increases were a necessary step to create a financially sound energy sector, unless other steps are taken to accelerate sectoral restructuring the price increases will not produce the desired results." (Bikales, Ganzorig, Gaamaa, EPSP 1997).

At this time, the Government of Mongolia shifted attention to sector restructuring and commercialization as well as the establishment of an institutionalized mechanism for tariff adjustments. In fall 1997, USAID agreed with the Prime Minister's Office and the Ministry of Infrastructure Development to provide technical assistance to support this effort.

The key implementer of this technical assistance was Hagler Bailly (later PA Consulting) under subcontract to DAI. The assistance built a link between Mongolian energy officials and their counterparts in Hungary, a link that proved extremely helpful to Mongolian policy-makers. One element of the program included visits by several Mongolian Members of Parliament to Hungary as well as regular visits by relevant Hungarian officials to Mongolia.

USAID assistance focused on drafting a new Energy Law, one that provided for the unbundling of generation, transmission and distribution enterprises and the creation of an independent regulatory body. The law was drafted and submitted to the Parliament. However, subsequent political disputes delayed passage and resulted in a sharp reduction in USAID-funded technical assistance in energy between 1998 and 2000. A new law containing all the key elements of the old draft one was finally approved in spring 2001 when the MPRP returned to power, setting the stage for renewed technical assistance activity in the energy sector.

*Pension Reform:* The pension system that existed in Mongolia in 1996 was a classic pay-as-you-go system. Despite quite favorable short-term demographic trends, it was already encountering financial difficulties. These difficulties were primarily due to the very favorable retirement terms offered to various special groups during the post-Communist years and primarily financed by the national pension system.

Discussions about possible pension reform largely revolved around two conflicting sets of concern. The first, mainly offered up by capital markets experts from various donor organizations, centered on a relatively rapid move toward a funded pension system, with (at least) a mandatory second pillar invested in financial assets. The second, taking quite the opposite approach, emphasized the importance of strengthening the long-term financial viability of the existing “solidarity” system. Interestingly, the strongest proponent for each completely contradictory approach came from different offices within a single multilateral donor agency!

In 1997 the Office of the Prime Minister, in consultation with the Social Policy Standing Committee of the Parliament, approached EPSP for assistance with developing a pension reform strategy for Mongolia. In November 1997, following preliminary assessment and presentation of recommendations by Mr. Christopher Bender, a consultant brought in under the EPSP, an MOU was signed between USAID and the GOM regarding the purpose and mutual obligations in this effort. This led to a three-year program of pension reform technical assistance under EPSP

The approach to pension reform recommended by USAID and accepted by the GOM involved a gradual transition to a partially funded system, focusing on the creation of non-funded individual accounts for all participants born after 1960. The non-funded nature of the accounts gives another name to this approach--notional defined contribution accounts (NDCs). Such accounts entail a great deal of infrastructure to support a future shift to partial funding; they create a link between contributions and eventual benefits for large numbers of participants; and they break the traditional mentality that the state is responsible for ensuring the welfare of all pensioners. At the same time, the system took due account of two strong arguments against immediate funding, namely the lack of acceptable domestic investment instruments and the lack of financing for transition costs that were sure to arise if even a portion of the current contributions were no longer available for funding current benefits.

In 1999 parliament approved two key laws involved in implementing this “moderate” approach, the first titled “Main Guidelines of Pension Reform” and the second called the “Law on Individual Pension Accounts.” This was a period of political turmoil and very few other important pieces of legislation were approved. Yet this particular reform measure enjoyed support from all major parties and its implementation continued after the MPRP election victory in 2000.

After the passage of the two key laws, the EPSP provided further support with initial implementation, including technical assistance with development of procedures and

computer systems for setting up the individual accounts. A limited public education campaign was also designed and implemented.

*Privatization:* The Enkhsaikhan government was determined from the start to make privatization a major component of its economic program. The first step, already mentioned above, was the passage of housing privatization legislation in September 1996. This step had enormous economic impact. First, the trend of having ground floor apartments bought and converted to shops and small businesses started immediately, leading to significant growth in the retail and small business sector. Second, apartments transferred for free to their current occupants became a major asset for them. Not surprisingly, the buying and selling of apartments quickly grew into a large market.

The next steps in privatization took longer than anticipated. Mongolian officials first requested help from the Soros Foundation. Soros in turn provided some world-renowned authorities to help develop a program of auctions to sell of the majority of remaining state businesses. The program that these experts developed, however, relied on a quite complex form of sealed bid auctions, one that was slow in being finalized and in the end quite flawed.

In spring 1998, USAID agreed to a request from the Mongolian government to provide technical assistance to Mongolia's privatization program. As a result, a new USAID-funded project—the Privatization Initiative, implemented by Barents—was launched in fall 1998. The new program quickly revised the sealed bid auction process to eliminate its problems, after which the program became much more successful. Barents also immediately turned attention – for the first time in Mongolia's post communist period--to developing a program of sales to foreign strategic investors of some of the most profitable state-owned enterprises, such as the Trade and Development Bank, Gobi Cashmere, the NIC Petroleum Import Corporation, and others. Although no sales took place until 2002, the simple act of creating that list of “Most Valued Companies (MCVs)” greatly facilitated the sale of a number of other large enterprises to domestic investors.

Between 1995 and 1999 the private sector share of Mongolian GDP rose from 55.1 percent to 72.2 percent. As these numbers are highly influenced by herding, which was fully privatized quite early in the reform period, it is even more interesting to note that during this same period the private sector share of industrial value-added rose from 20.0 percent to 64.7 percent. This reflects the privatization that took place during the Coalition period. More recent estimates would undoubtedly show even greater shifts in terms of the private sector's dominant role within Mongolia's economy.

### **Other USAID-Supported Reforms**

Beyond these areas, USAID-funded advisors played active roles in advising the Government of Mongolia on a range of other reforms throughout this period. Examples include:

- EPSP played large roles in official debates about trade policy in March 1997, actively supporting the decision to eliminate all customs duties
- EPSP staff, particularly economist D. Turbat, played leading roles in developing the new Mongolian Minerals Law in 1998, after which foreign investment in this key sector grew dramatically
- USAID economics scholarships to Mongolian staff helped strengthen a number of GOM institutions in this period, most crucially the Bank of Mongolia, but also the Ministry of External Relations, the Ministry of Finance and the Prime Minister's Office.
- EPSP helped galvanize discussions of a new approach to public administration reform, including the invitation of a New Zealand reform veteran to address the Cabinet in February, 1997. This reform got bogged down in politics, but the new law was eventually passed with ADB support in 2002.

### **Concluding Comment**

The magnitude of USAID's impact on the Mongolian reform program in these years is clear from these notes. It would be extraordinary for a large multilateral organization to have had a significant influence on government policies in banking, energy, pensions and privatization, let alone play a leading technical assistance role in each. The fact that USAID was so involved underscores the pragmatic, results-oriented approach promoted throughout this period. It also highlights the importance of flexibility and "quick response" mechanisms when designing and implementing policy projects. In retrospect, perhaps the most important key to all this was USAID's ability to offer rapid and flexible assistance to the Enkhsaikhan government when it first came to office in 1996. The August 1996 cabinet workshop was a turning point in this respect, cementing close relations between USAID and the new government. Many of the important reforms initiated during this period have continued under a new government. Certainly, the momentum toward a market economy that has played an important role throughout EPSP appears irreversible.

**ANNEX F:**  
**SUMMARY OF MAJOR PROGRAM DEVELOPMENTS, 1999-2002**  
**(AS REPORTED IN ANNUAL “R4” DOCUMENTS)**

**I. RESULTS REVIEW AND RESOURCE REQUEST (March 1999)**

**A. *Consolidate Mongolia’s Transition to Democracy***

- *International Development Law Institute (IDLI) publishes “Mongolian Bench Book”*: 1,000 copies distributed; additional training provided; program applauded for achieving “excellent results”; 90 percent of all surveyed judges assert that books are “relevant and useful.”
- *Asian Foundation NGO development program concludes*: grant to Liberal Women’s Brain Pool supports women’s conference in Ulaanbaatar; grant to Center for Citizenship Education trains 500 NGO leaders; grant to Women for Social Progress supports community development strategies in Overkhangai and Arkhangai; progress also reported in strengthening NGOs and developing new NGO law.
- *International Republican Institute (IRI) promotes political development*: training material for party activists developed; seminars and workshops conducted in 16 *aimags*; party workshop and retreat held for 14 senior officials from three parties; media capabilities in Prime Minister’s office improved; district offices for MPs developed; parliamentary research and drafting capabilities strengthened; legislation on ethics, family law, media law and combating corruption supported.

**B. *Accelerate and Broaden Environmentally Sound Private Sector Growth***

- *Economic Policy Support Project (EPSP) shapes energy commercialization*: High level working group established; restructuring options provided; key counterparts commit to energy reform.
- *EPSP supports pension reform*: legislation establishing new pension accounts finalized as first step toward partially funded pension system; parliament approves first reading of draft law.
- *EPSP stymied on efforts to promote banking reform*: “The banking sector continued to deteriorate, causing serious short-term budgetary and financial problems”.
- *Barents launches privatization initiative*: 24 enterprises privatized during last three months of 1998, yielding approximately \$4.9 million; new sealed bid auction process developed; preliminary privatization assistance provided for Gobi Cashmere, NIC and MIAT.



**C. *Other Activities***

- *Rural electrification program finishes:* Eighteen Caterpillar diesel generators valued at \$5.2 million provided to five *aimags* (Bayanhongor, Gobi-Altay, Zavkhan and Hovsgol); gen-set program marks final phase of long-time USAID effort to improve Mongolia's decaying energy infrastructure
- *National Renewable Energy Laboratory (NREL) grant remains a mystery:* Partnership with Mongolian Renewable Energy Corporation and Institute of Meteorology and Hydrology organized in October 1997 but Mission lacks any information on activity

**D. *Key External Events***

- Copper and cashmere prices plunge following Asian economic crisis
- Three prime ministers in one year: Enksaihan; Elbegdorj and Narantsatsralt
- S. Zorig, Minister of Infrastructure Development, key reformer and potential prime minister brutally murdered in Ulaanbaatar in October 1998
- Inflation falls to 6 percent in 1998; GDP growth estimated at 6.5 percent

**II. RESULTS REVIEW AND RESOURCE REQUEST (March 2000)**

**A. *Consolidate Mongolia's Transition to Democracy***

- *IRI promotes more efficient parliament:* new procedures and legislation related to ethics, corruption and new party and election laws supported; constitutional amendment to reduce size of quorum needed in parliament from two-thirds to simple majority passed; more than 1,085 public meetings involving members of parliament held
- *IRI supports party development:* members of three major political parties trained as part of effort to improve internal party democracy and effectiveness
- *USAID helps develop judicial reform strategy:* USAID supports judicial sector assessment in March 1999 and follow-on workshop in July 1999, leading to advisory group approval of draft strategy in February 2000

**B. *Accelerate and Broaden Environmentally Sound Private Sector Growth***

- *Barents privatization program achieves early success:* 41 state-owned enterprises sold between September 1998 and December 1999, raising \$12.5 million for government; new sealed bid auctions for smaller public enterprises results in winning bids that average nearly 25 percent more than the asking price, compared with only 0.2 percent under old system; media campaign promotes greater public awareness about privatization; draft international tenders for sale of Gobi Cashmere, NIC and Trade and Development Bank completed.

- *EPSP supports bank liquidations:* Bank of Mongolia, assisted by EPSP, liquidates ITI Bank and Reconstruction Bank, increasing capital/asset ratio of banking sector from 2.2 percent to 10.9 percent.
- *EPSP assists energy, pension legislation:* new legislation aimed at commercializing energy sector drafted, with USAID vowing that no new energy activities will be funded until new legislation is approved; new pension reform legislation passed in June 1999, resulting in modest follow-up support
- *Gobi initiative launched:* Though officially part of democracy SO, Gobi increasingly “fits” under the private sector/economic growth SO; initial focus on two *aimags* is extended to two more by late 1999; business development program proves very popular; study curbs enthusiasm for banning cashmere sales to China; new rural credit program provides approximately 100 loans in first year; three issues of *Gobi Business News* published, reaching circulation of 10,000; also, Gobi Business News radio program featuring *Market Watch* and *Weather Watch* starts in October 1990.
- *Pilot competitiveness program launched:* New six-month initiative designed to inform Mongolians about the principles of competitive analysis launched in January 2000; program includes development of Mongolian-specific case studies to illustrate opportunities and constraints; over 600 influential Mongolians participate

#### **C. *Other Activities***

- *Global Technology Network (GTN) records modest results:* Three relatively modest linkages established between US and Mongolian businesses; IESC works with GTN to sponsor *Mongol Construct 2000*, a trade Mission to the US for Mongolian construction firms
- *Lake Hovsgol program launched:* Partnership with US Department of Interior and Philadelphia Academy of Sciences results in several activities aimed at improving water quality monitoring; computerizing land use maps; improving fee collection procedures; improving roads and bridges; training park staff and developing radio network for park rangers
- *ACDI VOCA demonstration experiment faces difficulties:* ACDI/VOCA launched extensive training in conservation tillage; however, experiments failed due to combination of late applications of pesticide and widespread drought; efforts aimed at improving cashmere continue along with support for Mongolian Veterinary Association and the Foundation for Agricultural Development

#### **D. *Key External Events***

- Narantsatsralt’s third coalition government fails in July 1999, further underscoring deepening fragmentation of ruling coalition
- Cashmere, copper and gold prices remain low
- Inflation rate rises to 10 percent in 1999; GDP growth estimated at 2.7 percent

- Private sector value-added reported to grow by 12.7 percent in 1997, 15 percent in 1998 and 6 percent in 1999

### **III. RESULTS REVIEW AND RESOURCE REQUEST (March 2001)**

#### **A. *Consolidate Mongolia's Transition to Democracy***

- *IRI shifts attention to electoral process*: IRI trained prospective candidates, including women; trained domestic polling site monitors; purchased 10,000 single use ballot boxes; supported voter education through the Mongolian NGO Voters' Education Center; published 10,000 booklets for first-time voters; published 30,000 easy-to read voter guides comparing party platforms; and trained campaign managers and candidates for local town councils
- *Spade work for judicial reform continues*: Building on work started in 1999, USAID supports development of *Strategic Plan for the Justice System of Mongolia*; approved by parliament in May 2000, it sets the stage for launch of new USAID-funded judicial reform program in March 2001.

#### **B. *Accelerate and Broaden Environmentally Sound Economic Growth***

- *Barents privatization program moves forward*: parliamentary chaos causes initial delays in privatization of large state-owned companies; new parliament passes "Privatization Guidelines" developed with Barents assistance; cabinet immediately approved prospective sale of Gobi Cashmere, Trade and Development Bank and NIC through international tender process
- *EPSP deploys Agricultural Bank management team*: DAI management team assumed control of defunct Agricultural Bank in August 2000, launching comprehensive restructuring plan designed to make bank profitable by December 2001
- *EPSP concludes pension reform effort*: EPSP support for the State Social Insurance General office (SSIGO) to help establish new pension system finished in September 2000
- *EPSP supports new energy law*: New energy sector law drafted to allow "unbundling" of energy sector passed with effect from April 15, 2001, setting stage for renewed USAID support for energy sector
- *New competitiveness initiative launched*: As a follow-on to the 1999 pilot effort, new competitiveness initiative launched in August 2000 focused on meat, cashmere and tourism; new program also marks beginning of increased private/public sector dialogue on key economic issues facing Mongolia
- *Gobi initiative responds to winter zhud*: Harsh winter *zhud* leads to greater Gobi emphasis on herder management and land use issues; *Market Watch* radio covers entire Gobi region, has reported rural listening audience of 250,000; *Gobi Business News* readership grows substantially; private "Gobi Wave" FM station, supported by Gobi and Soros, reaches 17,000 listeners in South Gobi;

### **C. Other Activities**

- *Lake Hovsgol reports modest success:* program is “successful in improving the overall management of the Hovsgol Park and in sensitizing local populations to environmental issues;” however, it does not bring about an improved “legal or regulatory structure to address natural resource issues” and has “little success in addressing key land-use issues”
- *ACDI/VOCA engages on food safety issues:* ACDI/VOCA helps revise meat inspections regulations and establish Food and Safety Agricultural Inspection Agency within Ministry of Food and Agriculture; program also supports Mongolian Private Veterinary Association, national vet conference in Ulaabaatar, and new approaches to sparing breeder bucks from worst effects of *zhud*; however, no-till element of program is “not meeting expectations” and “has not met targets.”
- *NREL program moves forward:* NREL installed a computer, printer and other equipment to collect wind data and send it directly to the US for analysis; draft wind atlas also prepared and reviewed by Mongolian counterparts
- *Vocational center launched:* in response to a soft Congressional earmark, USAID provided \$750,000 to Catholic Mission in May 2000 to equip a new vocational center in Ulaanbaatar

### **D. Key External Events**

- *Zhud* in winter 2000 kills three million animals, or nearly 10 percent of Mongolia’s total livestock population
- MPRP returns to power, winning 72 out of 76 parliamentary seats in June 2000 elections; forms new government under Prime Minister Enhbayer
- MPRP hold further strengthened after success in October 2000 local elections
- Inflation estimated at 8.1 percent in 2000; GDP growth placed at 1.1 percent, in part on account of *zhud*.
- Real value-added in non-agricultural private sector grew by 22.1 percent in 2000, up significantly from average of 15.3 percent over previous four years
- Banking sector showed a profit of \$9 million in 2000 compared to a loss of \$8 million in 1999
- Rapid rise in copper and cashmere prices leads to significant increase in government revenues.

## **IV. Annual Report (March 2002)**

### **A. Consolidate Mongolia’s Transition to Democracy**

- *National Center for State Courts (NCSC) launches new \$10 million judicial reform program:* Administration of Capital City Court in Ulaanbaatar reorganized and substantially automated; first training programs launched; close coordination with GTZ and other donor-funded legal reform programs achieved.

- *IRI presents proposed new three-year program for Mongolia:* Emphasis on party and parliamentary development continues; at USAID urging, IRI agrees to recruit and place long-term expatriate country director.
- *Prime Minister's web site promote transparency:* EPSP works with Prime Minister's office to launch new interactive website ([www.open-government.mn](http://www.open-government.mn)) aimed at soliciting public comment on pending economic policy and other concerns.

**B. *Accelerate and Broaden Environmentally Sound Private Sector Growth***

- *EPSP spearheads turn-around of Agricultural Bank:* Eighteen months into its USAID-funded management contract, Agricultural Bank records impressive results (70 new offices, 430 new employees, 106,000 loans, 96 new current accounts, \$100,000 in taxes paid in January, etc.) and moves toward privatization
- *EPSP supports important changes in energy sector:* Several significant steps toward commercialization of energy sector achieved, including legal establishment of Energy Regulatory Authority (ERA); formal staffing and launch of ERA operations; unbundling of generation, transmission and distribution functions into 18 separate entities; and ERA approval of first energy licenses and tariff submission.
- *Pace of privatization slows:* USAID-funded privatization efforts focused on Gobi Cashmere and the Trade and Development Bank (TDB) met with mixed results, with Gobi foundering but TDB attracting more interest, leading to some optimism about a successful privatization in 2002.
- *XacBank Established:* The USAID-supported Goviin Ekhlel merged with the UNDP-supported Golden Fund for Development to form the privately owned XasBank with 20 branch offices aimed at extending innovative micro and small loan packages throughout Mongolia.
- *Gobi Initiative consolidates its presence as innovative, pioneering presence in rural Mongolia:* Successful implementation of "cashmere market days" helps extend a competitive market economy to rural Mongolia. Also, Gobi Business News becomes monthly Rural Business News with circulation exceeding 100,000. Number of herder groups associated with Gobi reaches 250, representing some 2,500 families and a population of around 10,000
- *Competitiveness Initiative Strengthens Mongolian private sector:* Several programs move forward during the year, including expansion of Mongolian Tourism Association and continued activities related to the meat and cashmere sector.

**C. *Other Activities***

- *Official Opening of Dom Bosco Technical Training Center:* New technical school in Ulaanbaatar opens in September 2001, USAID having provided \$750,000 in equipment and other support; the Catholic Mission provided

another \$700,000 to the project, representing a Global Development partnership of sorts.

- *ACDI/VOCA and Lake Hovsgol Project Conclude:* Both these projects, ongoing throughout most of the strategy period, conclude. Submission to UNESCO for declaring Lake Hovsgol a world heritage site nears completion. Also, the wind atlas developed by the US National Renewable Energy Laboratory in cooperation with Mongolian counterparts is finally completed and distributed.

#### **D. Key External Events**

- MPRP consolidation of power in Mongolia continues following May 2001 presidential elections that return Bagabandi to power
- September 11, 2001 attack on the U.S. has global consequences, with Mongolia offering staunch support for the U.S. war on terrorism
- Mongolia enjoys a relatively moderate winter for the first time in three years, leading to some hopes for an improvement in the 2001 economic growth of only one percent

#### **V. Annual Report (January 2003)**

##### **A. Consolidate Mongolia's Transition to Democracy**

- *NCSC program helps shape significant legal change:* Working closely with GTZ, the NCSC provides advice on new civil and criminal codes introduced in September 2002 and provides training to virtually every judge in the country; also, automation of four pilot courts completed and initial advice provided to prosecutor's office on dealing with corruption.
- *IRI promotes parliamentary transparency:* A renewed IRI program works with parliament, succeeds in implementing first open parliamentary committee hearings on judicial budgets and foreign aid.

##### **B. Accelerate and Broaden Environmentally Sound Economic Growth**

- *Trade and Development Bank Privatized:* Mongolia's largest commercial bank is privatized in December 2002 following payment of \$12.2 by consortium headed by a US company and involving Swiss and Dutch partners
- *Agricultural Bank Further Strengthened:* The Agricultural Bank concludes another successful year with the total of loans extended now reaching 370,000.
- *Gobi Initiative Faces Local Currency Concern:* Problems surrounding wheat program delays grant of local currency proceeds to Gobi until the end of the year, slowing implementation. However, XacBank records substantial growth and circulation of monthly Rural Business News exceeds 100,000, making it the most widely read periodical in the country.

- *Competitiveness Initiative Focus on Tourism, Cashmere:* Programs related to meat conclude in summer 2002; however, growth in Mongolian Tourism Association (MTA) continues apace and some progress is made toward establishing a collective mark for Mongolian cashmere
- *New Peri Urban Program Launched:* A new business development program implemented by CHF and focused on *ger* districts is launched in Darkhan in fall 2002, with plans to expand to Erdenet and Ulaanbaatar in the new year.

**C. Key External Events**

- Cashmere, copper prices continue to be low while gold prices increases
- Mining interest in Mongolia expands, partly on account of publicity given to Ivanhoe copper/gold holdings in south Gobi
- Tractors gather in Sukhbaatar square as part of protests on new land law
- Main visitors throughout the year include the Prime Minister of Russia, UN Secretary-General Kofi Annan and the Dalai Lama
- Series of special events commemorate the 840<sup>th</sup> birthday of Genghis Khan

## **ANNEX G: SUMMARY OF USAID-RELATED IT ACTIVITY IN MONGOLIA**

The USAID Strategic Plan for Mongolia developed in fall 1998 mentioned information technology as a cross-cutting concern and potential area of involvement. Although not directly incorporated as a strategic objective or intermediate result, the summary below highlights some of the ways in which IT concerns have been incorporated into the USAID/Mongolia portfolio. In addition, USAID worked with the Embassy to channel all remaining funding under the Global Technology Network (GTN) program toward Geek Corps.

### ***A. Web Site Development***

- Established web site for Prime Minister's office ([www.open-government.mn](http://www.open-government.mn))
- Reorganized web site for State Property Committee ([www.spc.gov.mn](http://www.spc.gov.mn))
- Working with Supreme Court to establish web site
- Working with XacBank to establish web site
- Developed web site for Mongolian Tourism Association ([www.travelmongolia.org](http://www.travelmongolia.org))
- Developed web site for Competitiveness Initiatives Project ([www.initiative.mn](http://www.initiative.mn))
- Developed web site for Judicial Reform Project ([www.url.mn](http://www.url.mn))
- Developed two web pages for Gobi Initiative ([www.gbn.mn](http://www.gbn.mn) and [www.marketwatch.mn](http://www.marketwatch.mn))

### ***B. Other Activity***

- Developed auctioning software and deposit collecting software for State Property Committee
- Prepared computer monitoring system for large enterprises privatization department at State Property Committee
- Provided computer network for entire State Property Committee
- Improved data base, provided computer network and developed software for State Social Insurance General Office
- Supported installation of new accounting, loan and deposit software at Agricultural Bank in cooperation with ADB-funded activity
- Computerized Capital City Court in Ulaanbaatar and helped implement GTZ-funded software program
- Provided public access terminal to Songinohairkhan District Court
- Provided computer support to General Council of Courts administrative offices
- Preparing to expand computer connections among prosecutor offices, aimag courts, district courts in Ulaanbaatar and the Capital City Court
- Equipped computer training facility at Dom Bosco Technical Training Center in Ulaanbaatar
- Provided new radio network for rangers at Lake Hovsgol National Park
- Expanded relevant information-oriented radio programs across rural Mongolia



- Provided short term training at US Telecommunications and Technology Institute for 2-3 Mongolians each year to learn latest technologies and approaches
- Ensured Mongolian representation at selected IT conferences in Asia
- Provided technical assistance to Netcard for launch of firm's on-line banking system
- Provided technical assistance through Bodi computer to Golomt Bank to improve computer driven management systems, design secure data base and develop e-commerce payment system and internet banking facility
- Launched Geek Corps initiative, fielding up to eight IT volunteers for three month stints with Mongolian computer companies

**ANNEX H:  
LONG-TERM USAID-FUNDED PARTICIPANTS  
FROM MONGOLIA, 1991- 2002**

USAID/Mongolia funds a modest long-term training program. However, by focusing on a couple of key concerns (including economics and business), it has over time helped develop an important cadre of Mongolians, especially in the banking sector. The types of training supported, along with jobs currently held by USAID-funded degree candidates, are summarized below. The 23 people listed below all completed their training program; training programs for two others were terminated prior to completion. Approximately 40 percent of the USAID-funded training participants have been women.

<b>NAME</b>	<b>PROGRAM</b>	<b>CURRENT JOB</b>
Ms. Ariuntungalog	MS, Oklahoma University (1999)	Chief Economist, Executive Ass't to Governor of Bank of Mongolia
Ms. D. Ashidmaa	MA, Virginia Polytechnic (1998)	Enterprise Specialist, Barents Project
Ms. Baasankhuu	MA, University of Colorado (1998)	Now works for IMF in Washington, DC
Mr. J. Bathuyag	MA, University of Colorado (1999)	Rector, Economics and Finance Institute
Mr. I. Bat-Ochir	MA, Oklahoma University (1999)	Unemployed -- on leave of absence
Ms. S. Bat-Oyun	MA, University of Illinois (1998)	Officer, Ministry of Foreign Affairs
Mr. A. Batsukh	MA, University Illinois (1998)	Deputy Governor, Central Bank of Mongolia
Mr. M. Bold	Program in Economic Management, Columbia University (2001)	Now works for World Bank in Washington, DC
Ms. L. Bolorma	MA, Virginia Polytechnic (1998)	Now lives in Japan

Mr. B. Enhhuyag	MA, University of Colorado (1998)	Chief, Monetary Policy Department, Mongol Bank
Ms. D. Enhjargal	MA, Vanderbilt University (1999)	Mongol Bank Representative in London
Mr. Ts Erdene	MBA, Michigan Technological Institute (1998)	Director of Planning and Coordination, Capitrone Bank
Mr. B. Erdenesanaa	MBA, University of Rochester (1998)	President, NewCom Group
Mr. D. Gantug	Professional Development Fellowship, University of Missouri (2001)	Non-returnee
Mr. D. Jargalsaihkhan	Diploma Course, Economics Institute Foreign Trade	Recently returned; look for employment
Mr. B. Munhuu	MS, Colorado School of Mines (1998)	Regulator, Energy Regulatory Authority
Mr. A. Munkhbat	MA, University of Illinois (1998)	CEO, Capitrone Bank
Mr. S. Munkhbat	MA, University of Illinois (1994)	Head of Department, Trade and Development Bank
Ms. U. Narantsetseg	MA, University of Illinois (1994)	Former MP; Eisenhower Fellow; Chair, Agricultural Development Foundation
Mr. Ch Sainbileg	MBA, University of Illinois (1998)	Director, INVESCO Consulting
Ms. G. Saruul	MA, Virginia Polytechnica (1998)	Now studying in US on PhD program

Ms. D. Sergelen

MA, Virginia  
Polytechnic (1994)

Currently in US under  
UNDP Sponsorship

Mr. B. Sodnompil

MA, Virginia  
Polytechnic (1994)

Executive with  
Premier Int'l

**ANNEX I:**  
**SELECTED USAID-FUNDED PAPERS AND REPORTS, 1991 – 2002**

ACDI/VOCA, *Report on National Veterinary Conference: Veterinary Privatization in Mongolia* (ACDI/VOCA, February 2001)

Albanos, Jr., William, *Two Year Strategic Action Plan for Development of Mongolian Association of Meat Exporters and Increasing the Export of Livestock Products from Mongolia* (DAI/EPSP, February 2000)

Bikales, Bill, *The Mongolian Informal Sector: Survey Results and Analysis* (DAI/EPSP Program), April 2000

Cain, William M., *Feasibility Study for a Post-Privatization Business Support Project in Mongolia* (Barents Group, February 1999)

Competitiveness Initiative, *2002 International Visitor's Survey* (Robert Nathan, forthcoming)

DAI, *Environmental Profile of Mongolia* (DAI/EPSP, August 1998)

DAI, *Economic Growth Profile—Mongolia* (DAI/EPSP, February 1995)

Davies, Brian, *A Diagnostic Study of MIAT Mongolian Airlines* (Barents/Ashurst Aviation Limited, September 2002)

Dolan, Tom, *Mongolian Humanitarian Dzud Assessment Report* (USAID Office of Foreign Disaster Assistance, March 2001)

Elliott, D. et al, *Wind Energy Resource Atlas of Mongolia* (National Renewable Energy Laboratory, US Department of Energy, August 2001)

Fine, Amanda, *Animal Health and Veterinary Medicine in Mongolia* (ACDI/VOCA, May 2001)

Gobi Initiative/Competitiveness Initiative, *Herder from the Future* (Gobi Initiative/Competitiveness Initiative, 2002)

Gobi Initiative, *Rural Businessmen's Guide to the Tax Law of Mongolia* (Gobi Initiative, 2002)

Gobi Initiative, *Animal Feed Availability Report* (Gobi Initiative, September 2002)

International Republican Institute, *Mongolia Parliamentary Election: Observation Mission Report* (IRI, July 2000)

Judicial Reform Program, *Structure and Functionality of the General Council on Courts: Report and Recommendations* (NCSC/JRP, November 2001)

LaMont, Robert, *Some Means of Addressing Judicial Corruption in Mongolia* (NCSC/JRP, 2002)

Lassiter, Greg et al, *Darkhan Rapid Needs Assessment* (CHF, October 2002)

Mongolia, Government of, *Strategic Plan for the Justice System of Mongolia* (USAID Rule of Law Program, April 2000)

Mongolia, Government of, *Privatization Guidelines for 2001-2004* (Barents Group, January 2001)

Mongolia, Government of, *Privatization Program for 2001* (Barents Group, February 2001)

Morgan, Michelle and Ts. Enkh-Amgalan, *Mongolia: Manual for Actions in the Private Sector Survey, Results* (Nathan/TCI, November 2001)

Morgan, Michelle, Ts. Enkh-Amgalan and David Flood, *Mongolia: Manual for Action in the Private Sector Survey, Findings* (Nathan/TCI, November 2001)

Napoleoni, John, *Darkan Business Survey* (CHF, October, 2002)

National Center for State Courts, *The Structure and Functionality of the General Council of Courts: Report and Recommendations* (NCSC/JRP, November 2001)

Oyumaa, J., *Wildflowers of Northern Mongolia* (Lake Hovsgol Project, 2001)

PA Consulting Group, *Commercialization Initiatives at Darkhan-Selenge Electric Distribution Network* (DAI/EPSP, September 2002)

PA Consulting Group, *Commercialization Initiatives at Ulaanbaatar Heat Distribution Network* (DAI/EPSP, November 2002)

PA Consulting Group, *Commercialization Initiatives at Ulaanbaatar Power Station Number 4* (DAI/EPSP, November 2002)

PA Consulting Group, *Commercialization Initiatives at Eastern Energy System* (DAI/EPSP, December 2002)

Restal, B.J., *USAID Cashmere Breeding Program Evaluation: Mongolia* (DAI/EPSP, July 2001)

Rizer, Jim and Gary Vollans, eds., *Contributions to Mongolia's Energy Strategy 2003-2010* (DAI/EPSP, forthcoming)

Schelzig, Karin, *Poverty in Mongolia: Comparing the 1995 and 1998 LSMS Headcounts* (DAI/EPSP, April 2000)

Singer, Norman, *Report on the Law of Mongolia on Land and the Law of Mongolia on Land Fees* (DAI/EPSP, September 2001)

Stokes, Ernest, *Mongolian Tax Authority (MTA) Corporate Income Tax Simulation Model* (DAI/EPSP, June 2002)

Urtnasan, N., Clyde Goulden, A. Ochir et al, *Hovsgol Lake and Nearby Cultural Landscape: Nomination for World Heritage Inscription* (Ministry of Education, Culture and Science/Ministry of Nature and Environment, Government of Mongolia, January 2002)

Wing, Woo et al, *Faster Economic Growth in Mongolia: Prospects and Policy Options* (DAI/EPSP, September 1998)

**ANNEX J:**  
**STATISTICAL TRENDS IN MONGOLIA, 1998 – 2001**

<i>Indicator</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
GDP (current prices; TG million)	817	925	1,045	1,153
GDP growth rate	3.5%	3.2%	1.1%	1.4%
Private output as % of GDP	70%	72%	78%	NA
Industry as % of GDP	23%	22%	24%	NA
Agriculture as % of GDP	40%	40%	33%	NA
Transport as % of GDP	7%	8%	9%	NA
Trade as % of GDP	18%	17%	21%	NA
Services as % of GDP	11%	11%	12%	NA
Net domestic credit growth	101%	-14%	27%	52%
Of which private sector	55%	-28%	45%	68%
Non-performing loans in banking System (% of loans outstanding)	34%	51%	23%	10%
Exchange rate at end of year (Togrog/US\$)	902	1,072	1,097	1,102
Exports (US\$million)	462	454	536	460
Exports as % of GDP	48%	50%	55%	44%
Copper as % of total exports	26%	25%	28%	32%
Gold as % of total exports	25%	21%	13%	16%
Cashmere as % of total exports	8%	15%	17%	11%
Other textile as % of total exports	7%	12%	17%	17%
Exports to China as % of total	32%	58%	60%	54%
Exports to Russia as % of total	12%	13%	9%	10%
Exports to US as % of total	9%	14%	20%	22%
Imports (US\$million)	503	513	615	555
Imports as % of GDP	52%	57%	63%	53%
Imports from China as % of total	13%	17%	21%	22%
Imports from Russia as % of total	30%	33%	32%	36%
Imports from US as % of total	7%	7%	4%	3%
Imports from Japan as % of total	12%	12%	12%	10%
Imports from S. Korea as % of total	7%	8%	9%	10%
Current Account Deficit (% of GDP)	-7.8%	-5.6%	-7.2%	-7.2%
Net Int'l Reserves (US\$million)	80	117	141	160
In weeks of imports	8.3	11.9	11.9	15.2
Foreign Direct Invest (US\$million)	19	30	54	63



<i><b>Indicator</b></i>	<i><b>1998</b></i>	<i><b>1999</b></i>	<i><b>2000</b></i>	<i><b>2001</b></i>
Budget revenues (TG million)	240	267	350	425
Tax revenues as % of total	64%	70%	78%	75%
Budget expenditures (TG million)	342	365	413	470
Capital expenditures as % of total	10%	7%	9%	11%
Subsidies/transfers as % of total	16%	19%	21%	20%
Interest payments as % of total	3%	5%	4%	3%
Goods and services as % of total	45%	44%	49%	53%
Population (million)	2.349	2.373	2.407	2.442
Population growth rate	NA	1.04%	1.40%	1.5%
Infant mortality (per 1,000 live births)	35	36	31	30
Maternal deaths (per 1,000 who gave birth)	1.58	1.75	1.58	1.69
Number of students (1,000)	447	470	495	510
Number of schools	630	668	683	700